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ABSTRACT

Problems in the administration of student aid programs are documented in this semiannual report by the Department of Educations's Office of Inspector General (OIG). Chapter 1 describes abuses of the Department of Education's student financial assistance (SFA) programs, improper screening of participating schools, illegal access by ineligible campuses, improper admissions practices, and inappropriate loan management by lenders and guarantee agencies. Chapter 2 highlights audit reports on elementary, secondary, and other education programs. The third chapter discusses general department management, disciplinary actions, and contract administration. Nonfederal audit activities are described in chapter 4. Chapter 5 offers a statistical summary of audit and investigation activities and management improvement reports, and chapter 6, the final chapter, provides a background of the Department and OIG. Appendices contain reporting requirements, audit resolution tables, ED/OIG audits of Department programs and activities, unresolved audit reports, audit-related receivables activity, glossaries of terms and abbreviations, and an index. Nine figures and five tables are included. (LMI)

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U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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James B. Thomas, Jr.

INSPECTOR GENERAL

JULY 1988

EA

U.S. Department of Education
Office of Inspector General

SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 1990 - SEPTEMBER 30, 1990 NO. 21

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

October 31, 1990

THE INSPECTOR GENERAL

Honorable Lauro F. Cavazos
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this Semiannual Report on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending September 30, 1990. Submission of the report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452), as amended. The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

The activities and accomplishments of OIG staff during the period, as documented in the enclosed report, have yielded significant monetary, administrative and programmatic benefits for the Department. Our efforts in the student aid area continue to disclose problems, including improper screening of participating schools; circumvention of Department rules by branch campuses to gain access to additional student aid funds; improper and abusive admissions practices by certain schools, which mislead students and result in added loan defaults; and improper loan management by certain lenders and guarantee agencies, which subjects the Department's student loan programs to theft and excessive costs. We will continue to work with Department managers to ensure that Federal education programs funded with taxpayer dollars are administered with economy, efficiency, and integrity, and that they serve their intended beneficiaries with maximum effectiveness.

I feel confident that together, we will continue to serve the interests of the American people and the educational community as we work to assure the effectiveness and integrity of Federal education operations and programs.

Sincerely,

James B. Thomas, Jr.

Enclosure

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

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EXECUTIVE SUMMARY

This report summarizes the accomplishments of the U.S. Department of Education (ED), Office of Inspector General (OIG), for the six-month period ending September 30, 1998. The report is issued pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452), as amended.

ABUSES BY PARTICIPATING ENTITIES AND INADEQUATE MANAGEMENT PRACTICES CONTINUE TO HARM THE STUDENT FINANCIAL ASSISTANCE PROGRAMS

The OIG has identified the student financial assistance (SFA) programs as the most vulnerable to fraud and abuse in the Department. As a result, we have devoted significant resources in recent years to the SFA programs with a view toward recommending legislative, regulatory or management improvements intended to prevent potential program abuses from occurring and reduce some of the causes of high default rates. We have also conducted numerous audits, investigations and inspections of SFA program participants who have abused these programs.

OIG activities highlighted in this and prior Semiannual Reports, and discussed in recent Congressional hearings, have repeatedly disclosed abuses of the Department's student aid programs by participating entities, including proprietary schools, guarantee agencies, lenders, servicers, and others. While some progress is being made through changes in program requirements and practices, ***much more needs to be done -- as soon as possible.***

Highlights of our findings involving SFA funds this period include the following.

- **Improper screening of participating schools.** In order to become eligible to participate in the Department's SFA programs, institutions must be licensed and accredited. Generally, licenses are awarded by State agencies and accreditation is made by an accrediting body recognized by the Department as a reliable authority as to the quality of education. In addition, institutions are required to provide financial statements and other information in order to become certified by the Department.

  However, as stated in the Inspector General's testimony before a Congressional committee this period, "While this [approach] may sound comprehensive in theory, we have found that in practice it is all too often a 'paper chase,' and overall the system is not effective in protecting Federal funds from misuse or in protecting students."

  Draft reports issued to the Department and discussed in testimony indicated that the Department's screening and accrediting agency recognition processes are not adequate to assure proper screening of schools for participation in the SFA programs. This period, we issued reports on audits of two schools, Baytown Technical School and Careers Vocational Training School, where $6.7 million in Federal SFA was disbursed

to campuses that did not meet Federal eligibility requirements. Other reports issued during the period disclosed that three schools – Bryant and Stratton College, Broughton Business College and Louisiana Business College, and Marion Adult Education and Career Training Center – could not meet the Department's requirements for financial responsibility.

- **Ineligible campuses circumvent Department rules to gain access to added SFA funds.** In our last Semiannual Report, we described how branch campuses were not being held to the rule that requires proprietary schools to exist for two years before gaining access to Department funds. This period, we found one school that, in addition to using branch campuses to gain entry to the SFA programs, continued to expand program participation to extension campuses. Saint Mary of the Plains College in Dodge City, Kansas, a private, non-profit liberal arts college, entered into an improper contractual arrangement with a correspondence school offering tractor-trailer driver training programs that did not meet minimum course-length requirements. Since 1987, the students enrolled in the tractor-trailer driving program received $67.7 million in student aid, and the Department incurred $7.6 million in interest and special allowance costs.

- **Improper admissions practices mislead students and result in added loan defaults.** To participate in the Department's SFA programs, eligible schools must screen students to determine whether they can benefit from the training offered. Often, the schools administer a recognized aptitude test to determine a student's ability to benefit. However, new requirements, which will take effect in January 1991, will require independent third-party testing.

  At schools we reported on this period, we found that the testing was performed by commissioned student recruiters who, by the very nature of their work and method of compensation, have an incentive to enroll rather than properly screen prospective students. At the Culinary School of Washington, Ltd., in Washington, D.C., we found that student ability-to-benefit tests were falsified. At least 10 current and former students advised our inspectors that school officials either completed the tests for them or assisted them in taking the test by providing test answers. Also during the period, United Career Centers, Hialeah and Cutler Ridge, Florida, a chain of 18 technical schools that received $35 million in student aid funds for the years audited, used commissioned recruiters who signed up students by using false advertising, falsifying or invalidating ability-to-benefit test results, or manufacturing high school equivalency documents.

  In other activity, this period saw the conviction and sentencing of the owner of MDC Education Center in Tampa, Florida, and his wife (the school's financial aid director), who enticed students to sign up for student aid and then forged the students' signatures on $50,000 worth of loan checks. The owner was sentenced to 22 years in prison; his wife received a 10-year sentence.

- **Improper loan management by certain lenders and guarantee agencies subjects Department loan programs to theft and excessive costs.** Guarantee agencies and lenders participating in student loan programs are required to take certain steps within established timeframes to help assure the collectibility of the loans. These steps constitute "due diligence" in loan management.

  Perhaps most significant this period was the result of our investigation of the Florida Federal Savings Bank. This period, Florida Federal, formerly the third largest student loan lender, and two former officers were convicted of student loan fraud, conspiracy and embezzlement. The bank was ordered to repay at least $17 million representing fraud-tainted loans on which reinsurance claims were made. OIG investigation had determined that Florida Federal, through its officials and employees, had submitted approximately 17,000 fraudulent student loan default claims totaling approximately $35 million.

  Also during the period, audits of State guarantee agencies questioned over $18.7 million relating to collections on defaulted loans.

ELEMENTARY, SECONDARY, AND OTHER EDUCATION PROGRAMS

OIG audits of elementary, secondary, and other education programs resulted in significant findings and recommendations in audit reports issued during the period. Highlights of some of these reports follow.

- Our audit of the accuracy of the number of Indian children reported to the Department by the Anchorage School District, Anchorage, Alaska, for the purpose of establishing its grant award for the period from September 1, 1986 through May 31, 1989, disclosed that the District had received overawards totaling about $700,000. The audit revealed that the District did not have the underlying documents required to support student eligibility for the funds.

- Our follow-up audit of the California State Department of Education (SDE), which was conducted to assess the adequacy of corrective actions taken by SDE and one of its subrecipients in response to findings contained in eight audit reports for the fiscal years ending June 30, 1987 and 1988, disclosed that neither SDE nor the subrecipient had taken adequate corrective action to address the findings. We recommended the return of $967,628.

GENERAL DEPARTMENT MANAGEMENT

OIG activities in the area of general Department management yielded significant results, highlights of which are presented below.

- Over the past several years, our audits of the Department's Primary Accounting System and eight of its subsystems have commonly shown similar weaknesses in internal controls within the subsidiary systems. Specifically, we found that subsystems lack effective accountability over accounts receivable and unliquidated obligations. Also, the subsystem managers have never reconciled the general ledger with the subsystems or with reports to the Department of the Treasury. This period, we issued two reports with significant findings in this area.

  - Our audit of selected balances on the Department's Report on Financial Position (SF 220) for fiscal year 1988 found that the Department lacked effective accountability and internal control over billions of dollars in appropriation fund balances. One output of these balances from the SF 220 for fiscal year 1988 found that the balances differed with the balances in the general ledger by as much as $21 billion.

  - Our review of the Indian Education Financial Management Subsystem disclosed significant weaknesses in the funding allocation process. We found that the Office of Indian Education was not conducting the proper number of site reviews each year as required by law. As a result, we estimated $1 million in grant awards were unnecessary during academic year 1988-89.

- As a result of OIG actions to recommend debarment and suspension of individuals and organizations from participating in Federal programs, the Department this period debarred 10 individuals/organizations, suspended 3, and proposed debarment or suspension action involving 7 others.

  In addition, under a new authority granted this period, the OIG suspended three certified public accountants and also proposed departmental debarment action against the three.

  These and other issues are discussed in greater detail in the pages that follow.

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(in ₹ millions)	[illegible]	[illegible]
AUDIT REPORTS / ISSUES OR PROVISIONS	[illegible]	[illegible]
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AUDIT REPORTS ISSUED OR BY PROGRAM MANAGERS	[illegible]	[illegible]
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ACTUAL RECOVERIES FROM AUDITS AND INVESTIGATIONS	[illegible]	[illegible]
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LEGISLATIVE AND REGULATORY DOCUMENTS REVIEWED	[illegible]	[illegible]

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Chapter 1
STUDENT FINANCIAL ASSISTANCE

A. ABUSES BY PARTICIPATING ENTITIES AND INADEQUATE MANAGEMENT PRACTICES CONTINUE TO HARM THE STUDENT FINANCIAL ASSISTANCE PROGRAMS

The OIG has identified the student financial assistance (SFA) programs as the most vulnerable to fraud and abuse in the Department. As a result, we have devoted significant resources in recent years to the SFA programs with a view toward recommending legislative, regulatory or management improvements intended to prevent potential program abuses from occurring and reduce some of the causes of high default rates. We have also conducted numerous audits, investigations and inspections of SFA program participants who have abused these programs.

OIG activities highlighted in this and prior Semiannual Reports, and discussed in recent Congressional hearings, have repeatedly disclosed abuses in the following areas:

Accreditation/eligibility/certification

Branch campuses and ineligible campuses

Ability to benefit and other admissions abuses

Ineligible courses and course stretching

Refund practices

Loan due diligence

Supplemental Loans for Students (SLS) and Parent Loans for Undergraduate Students (PLUS) issues

Bankrupt and closed school issues

Frequently, we found these problems to be the results of:

1) abuses or mismanagement by certain participating entities, including proprietary schools, guarantee agencies, lenders, servicers, and others;

2) failure by the Department to use all existing authorities to exercise its management oversight responsibilities and make needed improvements; and

3) limitations in the authority provided under the Higher Education Act.

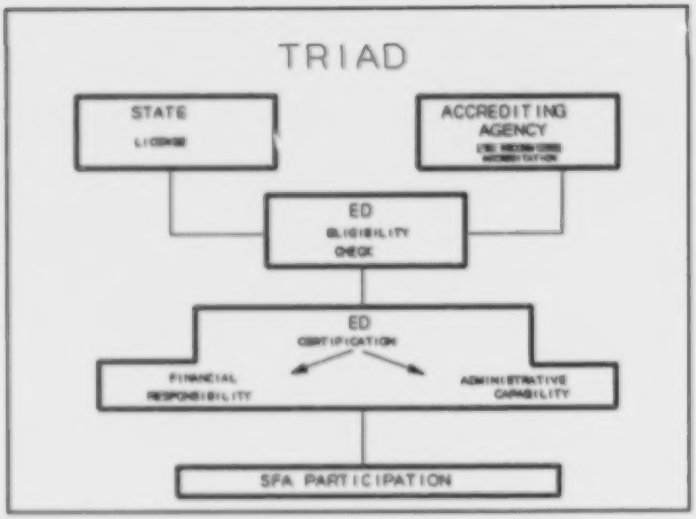
While some progress is being made through changes in program requirements and practices, much more needs to be done -- as soon as possible. In particular, appropriate actions must be taken to address any remaining open recommendations in previously issued audit, inspection, and management improvement reports (MIRs) dealing with systemic issues in the SFA programs.

B. COSTS TO STUDENTS AND TAXPAYERS CONTINUE: HIGHLIGHTS OF ISSUES IDENTIFIED AND REPORTED ON THIS PERIOD

This period we found certain schools committed abuses of the sort that we have previously identified and highlighted in our Semiannual Reports. For example, we found certain schools disbursed SFA funds at ineligible campuses, failed to provide training that meets minimum Federal requirements, and/or failed to properly screen students to determine whether they had the ability to benefit from the training offered. Other schools failed to make tuition refunds to students who dropped out of training, and in some instances we found that schools closed down or filed for bankruptcy while owing tuition refunds to students. Furthermore, we have continued to identify SFA fraud perpetrated by individuals and entities such as lenders. Highlights of our activities involving SFA funds follow.

1. Improper screening of participating schools

In order to become eligible to participate in the Department's SFA programs, institutions must be licensed and accredited. Generally, licenses are awarded by State agencies and accreditation is made by an accrediting body recognized by the Department as a reliable authority as to the quality of education. In addition, institutions are required to provide financial statements and other information in order to become certified by the Department. Thus, school participation is determined by a triad of players: accrediting bodies -- which must be recognized by the Department -- licensing agencies, and the Department. The interaction of these agencies is demonstrated in the following chart.



However, as stated in the Inspector General's testimony before a Congressional committee this period, "While this [approach] may sound comprehensive in theory, we have found that in practice it is all too often a 'paper chase,' and overall the system is not effective in protecting Federal funds from misuse or in protecting students."

Draft reports issued to the Department and discussed in testimony indicated that information submitted by schools applying for eligibility and certification is often accepted at face value, with little or no independent verification by Department staff. Another draft report indicates that the Department's accrediting-agency recognition process does not include adequate research and analysis to assure that only reliable agencies are recognized. The Department has not yet responded to our draft findings, but the analyses we have made thus far seem to indicate that overall, controls are not adequate to assure proper screening of schools for participation in the SFA programs.

Institutional eligibility does not automatically extend to include separate school locations, branches or extensions. If educational services are to be provided at additional school locations, the institution must notify the accrediting body, the State licensing agency and the Department. During this period, we issued reports on audits of two schools, Baytown Technical School and Careers Vocational Training School, where funds were disbursed to campuses that did not meet Federal eligibility requirements.

Another institutional eligibility violation disclosed during this period involved the Puerto Rico Technology and Beauty College, which failed to notify the Department's eligibility office of a change in the school's ownership.

In addition to these institutional eligibility matters, our audit activities disclosed deficiencies related to school certification. Specifically, we found that certain schools -- Bryant and Stratton College, Draughon Business College and Louisiana Business College (the Business

College) and Marion Adult Education and Career Training Center -- could not meet the Department's requirements for financial responsibility. The specifics of the eligibility and certification matters are provided below.

Institutional Eligibility Violations

$8 M Spent for Students at Ineligible Campuses Associated with 3 Trade Schools

Audit reports on three schools issued this period disclosed that almost $8 million in student aid funds was disbursed to students attending ineligible campuses.

Our audit of Baytown Technical School, Baytown, Texas, disclosed that the school disbursed $3.4 million in SFA funds for students enrolled at two campuses which, for varying periods, were neither accredited nor deemed eligible by the Department. Similarly, we found that Careers Vocational Training School, Anchorage, Alaska, disbursed $3.3 million in Federal SFA funds for students enrolled at three branch campuses in Houston, Texas, during periods of time when those campuses were not eligible to participate in the programs. We recommended recovery of the $6.7 million disbursed to the students attending the ineligible campuses at both schools, along with any associated interest and special allowance costs. In addition, we recommended improved procedures to assure that SFA funds are disbursed only to students enrolled at eligible campuses. (Audit control numbers [ACNs] 06-90505, issued June 29, 1990 and 06-90504, April 2, 1990)

Our audit of the Puerto Rico Technology and Beauty College, Bayamon, Puerto Rico, disclosed that the school's owners sold one campus to Lamec, Inc., without meeting Federal requirements to notify the Department of the change in school ownership. Under the sales contract, Puerto Rico Tech agreed to continue to request and receive Pell Grant funds and to turn them over to Lamec, even though it was neither licensed or accredited, as both parties knew. Further, we found that this school also offered courses that were not licensed, as required by Puerto Rico law. In total, we recommended that over $1.1 million be returned to the Federal government. (ACN 02-80601; June 27, 1990)

Lack of Financial Responsibility

3 Trade Schools Receiving SFA Funds Fail ED's Tests for Financial Responsibility

The Department's school certification process is to assure that participating schools are administratively capable and financially responsible. This means that there must be adequate staffing and financial resources to administer the SFA programs, refunds owed to students must be paid, and so forth. We found a lack of financial responsibility at Marion Adult Education and Career Training Center, Bryant and Stratton College and the Business College. All of these schools are now closed or in Chapter 11 bankruptcy. Both Marion and Bryant and Stratton are written up elsewhere in this report for recordkeeping violations. In addition, Bryant and Stratton and the Business College are discussed below.

Our audit of Bryant and Stratton College, Chicago, Illinois, disclosed that the school failed to respond to a Department request that it post a $300,000 letter of credit because it did not meet Federal requirements for demonstrating financial responsibility. As a result, the school was notified that it would be terminated from SFA program participation and fined, but the school closed before the termination proceedings were completed. (ACN 05-90004; April 18, 1990)

The Business College, Shreveport, Louisiana, did not meet the financial responsibility standards required for participation in the SFA programs. Our audit disclosed that the Business College had a deficit net worth of $823,000, and owed nearly $1.4 million in refunds and interest and special allowance costs and about $900,000 in delinquent taxes. Notwithstanding these unpaid obligations, the owners withdrew about $1.8 million from the corporation and filed for Chapter 11 bankruptcy. (ACN 06-90507; June 25, 1990)

2. Ineligible campuses circumvent Department rules to gain access to added SFA funds

In our last Semiannual Report, we described how branch campuses were not being held to the rule that requires proprietary schools to exist for two years before gaining access to Department funds. This practice meant that schools could expand rapidly beyond the point at which they could be managed effectively. This in turn led to school closings, sometimes in mid-session, before students could complete their training. As previously reported, we issued a management improvement report aimed at reducing the instances in which new

schools, including branch campuses, could participate in SFA programs without first existing for two years.

Saint Mary of the Plains College

In addition to using branch campuses to gain entry to the SFA programs, we found during this period that one school used contracting to expand program participation to extension campuses. We conducted an audit at Saint Mary of the Plains College (SMPC), Dodge City, Kansas, a private, non-profit liberal arts college established in 1952 by the Sisters of St. Joseph. In 1984, and again in 1988, SMPC entered into contractual arrangements with tractor-trailer driving schools: American Truck Driving School of Michigan, Inc., headquartered in Coldwater, Michigan; and American Truck Driving School of Texas, Inc., headquartered in Elm Mott, Texas. Each tractor-trailer driver training program was part home-study (correspondence) and part residential.

Prior to May 1988, the SFA regulations allowed for an eligible institution to contract with an ineligible one if the arrangement was approved by the eligible institution's accrediting agency. The 1984 contracts were approved by the North Central Association of Colleges and Secondary Schools, which was the recognized accrediting agency for SMPC. With this approval, the Department approved the tractor-trailer driver training for participation in SFA programs. However, students who received SFA funds for tractor-trailer driver training had to be enrolled in SMPC.

In April 1988, a regulatory limitation was added pertaining to contractual arrangements. The newer requirements stated that an eligible institution, such as SMPC, could enter into a contractual arrangement with an ineligible one *only* if the percentage of the educational program provided by the ineligible institution was limited to 50 percent.

Tractor-trailer Driving Offered Through Improper Contractual Arrangements

Our audit of SMPC disclosed that students who were awarded SFA for tractor-trailer driver training under the 1984 contractual arrangements received these funds improperly because they were enrolled only in the driving schools rather than in SMPC, as required. This improper arrangement continued under the 1988 contracts, with further violations occurring because SMPC failed to provide at least 50 percent of each student's educational program.

Furthermore, the tractor-trailer driving program never met minimum Federal course-length requirements. At least 300 hours are needed to qualify for the GSL programs, and at least 600 hours are needed for Pell grants. SMPC claimed that 690 hours were needed to complete the tractor-trailer driver training. However, we determined through a reading specialist that the correspondence portion of the course,

purported to be 480 hours, could actually be completed in about 55 hours. Thus, even if it took 210 hours to complete the other portion of the course, as represented by the school, the total time of 265 hours falls below both the 300-hour threshold needed for students to receive a student loan and the 600-hour threshold needed for students to receive Pell grants.

Since 1985, students enrolled in the program have received about $87.1 million in student aid funds. In addition, the Department has incurred approximately $7.4 million in interest and special allowance costs on the loans. We recommended that the Department recover these funds. (ACN 07-00027; September 6, 1990)

3. Improper admissions practices mislead students and result in added loan defaults

To participate in the Department's SFA programs, eligible schools must screen students to determine whether they can benefit from the training offered. Students must have a high school diploma, a GED (general equivalency degree), or otherwise be able to demonstrate that they have the ability to benefit. Often, the schools administer a recognized aptitude test to determine student ability to benefit. However, new requirements, which will take effect in January 1991, will require independent third-party testing.

At schools we reported on this period, we found that the testing was performed by commissioned student recruiters, who, by the very nature of their work and method of compensation, have an incentive to enroll rather than properly screen prospective students. On a recurring basis, we have found that many students who lack the basic skills needed to get through training are attracted by exaggerated promises of employment and enroll in proprietary schools, at the expense of the Federal government. Often, these enrollments also occur after high school diplomas and GEDs have been falsified, recruiters have supplied test answers, or the fact that the student failed to make the minimum passing score has been overlooked. Yet, when students drop out, even though they were victims of unscrupulous practices, they remain liable for repaying their student loans. Frequently, these students default on their loans.

This period, all three of our inspections and one of our audits disclosed abusive admissions practices. The results of this work are summarized below, along with investigation results concerning a school owner who improperly admitted students to his school.

Culinary School of Washington, Ltd.

School Falsified Student Ability-to-Benefit Tests; Students Put to Work in Public Cafeteria

At the Culinary School of Washington, Ltd., (CSW) in Washington, D.C., we found that student ability-to-benefit tests were falsified. At least 10 current and former students advised our inspectors that school officials either completed the tests for them or assisted them in taking the test by providing test answers.

We found that additional misrepresentations were made by the recruiters and others with respect to the transportation and living quarters that would be made available, and the quality of the training that would be provided. Instead of training in well-equipped, professionally planned kitchens and at various embassies, as advertised, many CSW students received training in outdated, unsanitary and poorly equipped facilities. At one site, "training" consisted of actually operating a cafeteria at a wastewater treatment plant.

In January 1990, about the time that our inspection began, the school filed for Chapter 11 bankruptcy. Subsequently, the school signed an agreement with the licensing agency to cease operations as of June 30, 1990. We estimate that approximately $7.3 million annually can be put to better use now that this school is no longer participating. (N-0000903; May 21, 1990)

General Education and Training, Inc.

Commissioned Salespeople Manufactured GEDs

General Education and Training, Inc. (GET), Grandview Missouri, which provides truck-driver and diesel technology training, used commissioned salespeople to recruit prospective students in 20 different States. These recruiters used false GEDs and Federal income tax returns in order to get students enrolled and eligible for student aid. One former recruiter explained to our inspectors that he took a GED obtained from one student, copied it, and "whited out" the name of the student and other identifying data. Then, when he came across a student who did not have a GED or high school diploma, the recruiter filled in the blank GED he had made up. Recruiters also provided students with answers to ability-to-benefit tests, and the school used misleading bait-and-switch techniques to recruit students.

We referred this school to the Department for administrative action. (N-0000904; July 9, 1990)

Transwestern Institute

False Advertising Used to Lure Students into Debt

Newspaper advertisements said:

> *Help us please: we have jobs that need to be filled now! $4.50-$10 an hour!*
>
> *Unemployed, unskilled, unqualified? Call us today! We have companies willing to hire you while you train. Jobs pay $4.50 - $8.50 an hour.*

While these appear to be legitimate advertisements for employment, our inspection at the Transwestern Institute (TWI) in Long Beach, California, disclosed that individuals answering these advertisements were actually being recruited to attend a proprietary school, at the expense of the Federal government. Some students were told by commissioned referral agents that they would receive part-time jobs while they were attending TWI but none did. TWI referral agents also misrepresented costs related to training, living-expense allowances and other services.

Our report documented these and other numerous abuses, including the failure of the school to repay over $500,000 in tuition refunds to students who withdrew from the training. Approximately 10 days subsequent to the issuance of our report, the school closed. (N-0000905; September 10, 1990)

United Career Centers

Student Recruiters Invalidated Student Ability-to-Benefit Test Results

Our audit of the United Career Centers (UCC), Hialeah and Cutler Ridge, Florida (a chain of 14 technical schools under the same ownership as the Ultissima chain reported on during the six-month period ending September 30, 1989) disclosed that, for the years audited, the UCC schools received $35 million, even though at the three schools we visited, students were not properly tested to determine their ability to benefit.

For example, one test was administered without using the time limit recommended by the test developer, thereby

invalidating the test results. Another test was used improperly when the school admitted students who did not score at the minimum passing levels established by the school. Since the school failed to meet SFA institutional eligibility requirements with respect to ability-to-benefit, we recommended that the Department take action to recover the $6.4 million awarded to the three schools we examined. Prior to issuance of our draft report, all 14 of the UCC schools closed. (ACN 04-90304; June 14, 1990)

MBC Medical Education Center

Husband and Wife Team Sold False Hope to the Disadvantaged and Obtained $30,000

OIG investigation efforts revealed that Paul R. Bell, owner of MBC Medical Education Center in Tampa, Florida, and his wife, Carol Tortarelli, who was the school's financial director, forged the signatures on student loan checks in order to obtain over $30,000 in student aid funds. According to published accounts, the couple preyed on low-income students and enticed them to apply for Federal loans. Then they forged the student names on the Federal checks and deposited them into their own personal accounts or the school's account.

The Assistant State Attorney who prosecuted this case observed:

> They [the students] were sold hope, sometimes just the hope of getting off welfare. Some could not read or write and couldn't pass the entrance test, but were admitted anyway.

According to a newspaper account, the Assistant State Attorney recited a litany of instances in which Bell spent the student loan money for his own purposes, including trips with female students, a $60,000 Mercedes, and "tens of thousands of dollars" in credit card charges.

Bell and Tortarelli were convicted by a State jury on various counts of a 147-count indictment charging forgery, grand theft and conspiracy to commit fraud. Bell was found guilty on 142 counts; Tortarelli was found guilty on 82 counts. Bell was sentenced in Florida State court to 22 years in prison. Tortarelli received a 10-year prison sentence. Shortly after charges were filed, the school closed.

This case was developed in cooperation with the State of Florida and represents the type of results hoped for in future Federal-State joint efforts.

Wilfred American Educational Corp.

Sales Representatives Motivated by Commissions to Falsify Enrollment Data

In our prior Semiannual Reports, we have provided information about the progress of our activities with respect to the large Wilfred chain of schools (see Semiannual Report No. 20, page 24).

On October 15, just subsequent to the end of our reporting period, the Wilfred American Educational Corp. and its Massachusetts subsidiary, Wilfred Academy, Inc., were found guilty of nine counts of mail fraud, after a five-week jury-waived trial before a United States District Court Judge in Massachusetts.

Over 35 witnesses and more than 200 exhibits demonstrated that commissioned representatives of the Massachusetts schools routinely falsified information that pertained to students' eligibility and need for student financial aid. The court also found that Wilfred's employees were motivated to lie, in part because they received a commission for each enrollment that they achieved, and because the company benefited from their activities. Ultimately, in finding the defendants guilty of the nine counts, the court stated that *"there was a sufficient consistency to the way all these admissions representatives acted in all the schools . . . that the corporations may be held liable for."*

This period, as a result of the suspension of Wilfred, its president and its subsidiary (see Semiannual Report No. 18, page 23), the Department denied reimbursement claims totaling over $7.0 million.

Also this period, Guido S. Sanchez and Rosemarie V. Tyson, two former employees of the Wilfred schools in Florida, each pled guilty in U.S. District Court to two counts of making false statements having to do with matters related to both institutional eligibility and student admissions.

Specifically, Sanchez's statements had to do with false information provided to the school's accrediting body. Sanchez and another employee misrepresented the school's

peaceful use of students who took the State cosmetology exam. They also misrepresented information about commissions paid to recruiters. Tyson's misstatements had to do with falsifying the status and financial condition of a student.

On October 15, Sanchez and Tyson were each sentenced to two years on two counts. The sentences were suspended and they were placed on four years probation. Sanchez was also ordered to pay a $4,000 fine in addition to a criminal penalty of $7,000 agreed to in a plea agreement.

4. Providing ineligible courses shortchanges students

Federal funds may be used only for courses that meet requirements established by applicable laws and regulations governing the SFA programs. In prior Semiannual Reports, we discussed MIRs addressing three types of course-length abuses that we had identified. We recommended that the Department: 1) verify that actual course lengths match the lengths reported to the Department in order to qualify for SFA participation; 2) address the practice by certain schools of padding courses with unneeded material to qualify for SFA participation; and 3) take steps to limit the abuses that occur when schools assign unreasonable credit hours to clock-hour training programs solely to obtain additional Federal SFA funds.

Following the issuance of our MIR concerning unreasonable clock- to credit-hour conversions, the Department published a Notice of Proposed Rulemaking intended to curb abuses related to clock- to credit-hour conversions. Originally, conversions were intended to help, for example, community colleges to allow transfer credits for students coming in from vocational training schools. However, OIG audits and other sources disclosed that some schools improperly used course conversions to increase, sometimes unreasonably, the amount of SFA funds for which students attending their schools could qualify. The proposed rules establish a regulatory formula for the calculation to be used to convert clock hours to semester, trimester or quarter hours in undergraduate vocational training programs. It is hoped that this rule will provide for equitable amounts of SFA funding to be available, regardless of the measure used to state the length of the training offered.

During this period, we found that course-length violations continue to occur. In fact, many of the schools we reported on had course-length violations along with other abuses:

- At the Culinary School of Washington, Ltd., mentioned elsewhere in this report for ability-to-benefit violations, we found that courses represented to the Department as 600 hours in length were actually completed in as little as 400 hours.

- At the Marion Adult Education and Career Training Center, mentioned elsewhere in this report for inadequate recordkeeping and numerous other violations, we found that

$157,000 was disbursed to students enrolled in courses that failed to meet Federal requirements because the school routinely credited hours on holidays as class hours attended. Also, the school counted hours associated with an ineligible course and added them to the time it took to complete an eligible course, thereby altering the course length to make students eligible for additional amounts of student aid.

- At the Baytown Technical School, discussed elsewhere in this report for institutional eligibility violations, we found that the school geared modified course equivalences when it assigned semester credit hours to clock-hour courses without actually changing the course length. This practice increased Pell awards at the school by about $100,000.

Another school, Webster Career College, Los Angeles, California, improperly converted its clock-hour courses to credit-hour measures, as described below. Also provided below is updated information concerning the founder of the American Transportation College (ATC), Spartanburg, South Carolina. Previously (see Semiannual Report No. 19, page 5) we reported audit findings that ATC was not eligible to participate in the SFA programs and had enrolled students in a 720-hour course rather than the 1,800-hour course approved by the Department.

Webster Career College

Declined Clock-Hour Conversion Ineligible Courses Length Measures to Earn Additional SFA Funds

Our audit of Webster Career College in Los Angeles, California, disclosed that when the school converted its programs from clock-hour measures to credit hours, it ignored the academic year equivalences set forth in Office of Student Financial Assistance publications. No changes to the course or the administration of the program occurred which would warrant the conversion. Further, the school assigned unreasonable numbers of credit hours to its courses and did not comply with its accrediting agency's guidelines for conversion. As a result, excessive Pell grants were disbursed to students.

For example, Webster's course catalog describes a clock-hour program as a 30-week course for a full-time student, in which students could earn 30 semester credit hours. This could qualify a student for about one and two-fifths of a Pell grant, or $2,196 for the period under audit. The same course was also described in the catalog using the pro-rata method of measure - 600 clock hours. Under the old, clock-hour measure, a student could only qualify for about two-thirds of a Pell grant, about $1,276. Thus, under the conversion to credit hours, each student could obtain an additional $1,672 to attend the course.

We recommended that the school evaluate its Pell Grant awards, taking into consideration academic experiences in its calculations, and adjust the overpayments to the Department. We estimated that the overpayments would total $0.7 million for Pell Grant award years 1996-97 through 1999-00. Further, we estimated that losing future Pell Grant awards as a result from the school appropriately address any overpayments could prevent about $1.1 million of improper disbursements annually. (A/G/X 00-00000, September 16, 1999)

American Transportation College

School Owner Gave False Information About Courses to Gain SFA Funds

Robert W. Crocker, founder of American Transportation College (ATC), a truck-driver training school in Spartanburg, South Carolina, entered a plea of nolo contendere to a three-count indictment charging fraud and false statements.

A federal grand jury returned the indictment against Crocker who, in addition to being the school's founder, was also its chairman of the board and chief executive officer. The indictment charged Crocker with furnishing false information regarding curriculum, job rates, and other material elements to the Department's eligibility officials, in order to secure recognition for the school as an eligible institution. As a result of the fraud, ATC recruited over $000,000 in SFA received on behalf of about 00 students enrolled in an ineligible program.

5. Tuition refunds still an area target for close, improved Department monitoring of compliance with refund requirements could save money

Certain schools are not making required refunds of federally funded tuition when students drop out of training. This practice results in increased costs to the student borrowers in terms of loan debt amounts, and to the Department in terms of interest and special allowance payments and defaults when they occur.

OIG activities this period resulted in recommendations to improve monitoring of tuition refunds which, if implemented, could result in significant savings annually. Results this period also included sentencing and restitution ordered against former school owners who withheld tuition refunds from students.

Use of Loan Account Data Recommended to Monitor Compliance

Improved Monitoring of Compliance with Refund Requirements Could Result in Significant Annual Savings

Our audit disclosed that GSL program costs could be reduced by millions of dollars if loan account data were effectively gathered and used by the Department to monitor noncompliance with refund requirements. The necessary loan account data presently exists in loan holder or servicer files. If the data were effectively used, ED could recover excessive interest and special allowance payments on untimely refunds and cancellation disbursements made by schools on Stafford loans. Furthermore, the Department could promptly identify schools that are not making refunds or cancellation disbursements and recover the associated excess costs.

The objective of our recommendations parallels the Department's purpose in establishing a National Student Loan Data System, and when that system is established, the inclusion of specific data elements will give the Department added capability to monitor in this area. Potentially, we estimated annual cost savings resulting from increased monitoring to be in excess of $4.5 million. This is a conservative estimate because it is based solely on untimely refunds and excludes situations where refunds were not made. (ACN 01-70090; August 7, 1990)

Ruesing University of Beauty, Inc.

Beauty School Owner Sentenced After Committing Admissions and Other Abuses

Our last Semiannual Report (page 17) indicated that Anton P. Ruesing, owner of Ruesing University of Beauty, Inc., St. Louis, Missouri, was indicted on charges of misappropriating tuition refunds owed to students who had dropped out of training. In addition to owing over $300,000 in refunds, our investigation determined that Ruesing enrolled students who did not meet the Department's ability-to-benefit requirements or other criteria established by the State licensing agency.

This period, Ruesing pled guilty to one count each of mail, tax and bank fraud and was sentenced to two years in prison and five years probation. The indictment charged Ruesing with defrauding the U.S. Department of Education, the Missouri Coordinating Board for Higher Education, students

and various banks. Ruesing was also charged with filing false tax returns for 1983 and 1984.

Adelphi Business College

Former Business College Owner Stole Tuition Refunds Owed to Students

Previously we reported that Al Terranova, former owner of Adelphi Business College, was charged by a grand jury with stealing tuition money owed to students who had dropped out of their training programs. Investigation developed evidence that Terranova falsified business records and failed to make over $500,000 in refunds to students. In September 1987, the school filed for Chapter 7 bankruptcy. (See Semiannual Report No. 20, page 17; and No. 19, page 24.)

This period, Terranova pled guilty to two misdemeanor counts in Superior Court of New York County. Restitution of $150,000 is to be paid before sentencing on November 11, 1990.

6. Missing or altered records often associated with additional SFA abuses

Participating institutions are required to maintain a system of records and to make records available to auditors and other Department officials. Program costs and student eligibility and attendance must be properly documented.

Missing or altered records can indicate other SFA abuses. For example, our audits of Bryant and Stratton College and Marion Adult Education and Career Training Center are both discussed elsewhere in this report for failure to meet minimum Federal requirements to demonstrate financial responsibility. Both of these schools also lacked adequate records to demonstrate that SFA funds received were used properly. Further, the Marion school also committed course-length violations and failed to maintain proper accounting and student eligibility information. Specific problems associated with the recordkeeping practices at these schools are described below.

Bryant and Stratton College

School with $741,000 in Questioned and Unsupported Costs Now Closed

Our audit of Bryant and Stratton College, Chicago, Illinois, disclosed that the college did not maintain adequate accounting records or adequate student records. The college's records did not adequately account for $424,000 in SFA funds. We also found that student files did not contain financial transcripts, ability-to-benefit determinations, or other required financial information. As a result, we questioned $289,000. The student files also indicated that the college did not make an estimated $28,000 of required refunds. Subsequent to the issuance of our audit report, and a notice of termination and fine by the Department, the school closed. (ACN 05-90004; April 18, 1990)

Marion Adult Education and Career Training Center

Proprietary School Lacked Records and Eventually Shut Down; $0.8 M Questioned and $4.4 M Not Properly Supported

Our audit of Marion Adult Education and Career Training Center, Chicago, Illinois, disclosed that Marion 1) overstated the length of its programs; 2) could not demonstrate financial responsibility or administrative capability; 3) could not adequately account for Federal funds; and 4) did not comply with programmatic requirements when it disbursed Federal funds. For example, Marion had $269,000 less cash on hand than the amount shown on a quarterly report; this could not be reconciled. In addition, 78 of the 98 student files we reviewed lacked such required documentation as enrollment agreements, student aid reports and financial aid transcripts. We questioned $770,000 and identified about $4.4 million as unsupported. We recommended recoveries of funds and administrative action, as appropriate. Prior to the issuance of our draft report, this school closed. (ACN 05-90007; September 11, 1990)

7. Student eligibility falsifications result in improper awards

Student borrowers must meet certain qualifications to participate in the Department's SFA programs. For example, each student must be enrolled in an eligible program and be beyond the age of compulsory school attendance. Students must be citizens of the United States, or provide evidence of eligible resident status. Students must certify that they are not already in default on Department student loans. Information provided when applying for financial aid must be accurate -- including the student's Social Security number (SSN).

Falsification of student identification or status constitutes fraud. OIG investigations results stemming from student eligibility violations are summarized below.

Falsification of SSNs to Obtain SFA Funds

Barber School Owner Used Bogus SSNs to Obtain $400,000 in SFA and Told Congress How Easy It Was

Tommy Wayne Downs, former owner of Harrisburg Barber School, Lemayne, Pennsylvania, was recently sentenced in U.S. District Court, Middle District of Pennsylvania, to 30 months in jail and two years probation and assessed $100.

OIG investigation revealed that Downs forged the signatures on 111 student loan applications in the names of fictitious students by using bogus Social Security numbers. Downs received approximately $268,000 as a result of his scheme.

Downs recently appeared before a Congressional subcommittee, and in hearings concerning student aid fraud, he explained that guarantee agency oversight procedures were "loose as a goose." Further, Downs explained that "I have every reason to believe that were I released from prison tomorrow, I could go out and do the same thing."

Downs was previously convicted on charges of mail fraud and use of false SSNs in connection with an embezzlement scheme at the Guideliners School of Hair Design in Nashville, Tennessee, that netted him close to $200,000 in GSL funds. He was sentenced to 11 years and 4 months in Federal prison and ordered to pay $179,000 in restitution on those charges. (See Semiannual Report No. 19, page 27.)

Conspiracy Nets $130,000 for 11 Individuals

A Federal grand jury in Birmingham, Alabama, recently named 11 individuals in a 46-count indictment charging fraud and conspiracy to commit fraud. A joint OIG/Postal Inspection Service/ Federal Bureau of Investigation/Health and Human Services investigation found evidence that the individuals fraudulently received approximately $130,000 in student loan funds by listing false information on loan applications.

False Claims of Student Status and Citizenship

Individual to Pay $19,000 Restitution; Another Pleads Guilty To SFA Fraud

We have continued to find instances in which students falsify their citizenship status in order to obtain SFA funds. For example, during this period, Jose Ramirez, a citizen of Colombia, was sentenced to three years probation and ordered to make restitution of about $19,000 for loans he fraudulently obtained by using a false Social Security number and by falsely claiming to be a U.S. citizen.

Also during this period, Etmara E. Johnson, a former student at DeKalb College, Clarkston, Georgia, pled guilty to a one-count information charging student aid fraud. OIG investigation revealed that Johnson increased the number of dependents and falsely claimed to be a U.S. citizen on student loan and grant applications in order to obtain $8,700 in student aid.

Prior Defaults Not Reported

Individual Indicted on 4 Counts; Another Sentenced to 12 Months in Prison

OIG investigations developed evidence that two individuals, Letitsha D. Peake and Ahmed Z. Hussain, were able to obtain over $52,000 in SFA funds even though they had already defaulted on other student loans.

Peake is alleged to have fraudulently obtained over $39,000 in SFA funds by falsely claiming that she had never defaulted on a GSL. In September 1990, she was indicted on two counts of making false statements and two counts of student loan fraud.

Hussain fraudulently obtained over $13,000 by using an alias and falsifying his default status on loan applications. In September 1990, he was sentenced to 12 months in prison and 3 years probation.

8. Improper loan management by certain lenders and guarantee agencies subjects Department loan programs to theft and excessive costs

Guarantee agencies and lenders participating in student loan programs are required to take certain steps within established timeframes to help assure the collectibility of the loans. These steps constitute "due diligence" in loan management.

Perhaps most significant this period was our investigation of the Florida Federal Savings Bank. The results of our work on Florida Federal are summarized below, along with information about other results involving improper loan management practices.

Florida Federal Savings Bank

Florida Bank and Its Former Officers Guilty of Theft; Government to Receive $18 M and Save Additional $13 M

Florida Federal Savings Bank and two of its former officers were sentenced in U.S. District Court, Tampa, Florida, as a result of an OIG investigation (see Semiannual Report No. 20, page 13). Florida Federal was once the third largest lender in the student loan program, with a student loan portfolio that exceeded $600 million. The bank, its former vice-president, Robert O. Harmas, and James J. LaMantia, former assistant vice-president, were found guilty of between 30 and 43 counts of student loan fraud, conspiracy and embezzlement of approximately $18 million in fraudulent insurance claims filed on guaranteed student loans.

Jeffrey A. Flatten, a former division vice-president of the bank, was convicted on 25 felony charges of making false statements, presenting false claims, committing mail fraud and stealing government funds. According to our investigation, Flatten conspired with other Florida Federal employees to submit approximately 17,000 fraudulent GSL default claims for payments totaling $35 million.

The bank was ordered to pay court costs totaling $8,600, fined $2,150,000 and ordered to make restitution of at least $17,000,000, an amount rounded down by the court from $17,891,628 calculated by the bank's own consultant as fraud-tainted loans on which reinsurance claims were made. Robert O. Harmas was sentenced to two years in prison and ordered to pay $2,150 in court costs. James J. LaMantia was sentenced to serve three years probation, perform 300 hours of community service and pay $1,500 in court costs.

As part of a civil settlement, Florida Federal agreed to pay the United States the total sum of $18,041,628 in consideration for the release of all civil claims that the United States had or may have against Florida Federal, its subsidiaries, and all of its current and former directors, officers, agents, representatives, and employees. This amount includes the $17,891,628 figure given above and $150,000 in additional damages. Finally, the settlement will save the government about $13 million which represents

falsified student loan documentation which Florida Federal agrees is permanently ineligible for reinsurance payment by the government.

Guarantee Agency Audits

Four Non-Federal Audits of Guarantee Agencies Resulted in Questioned Costs of $14.7 M and Unsupported Costs of $0.4 M

During this period we issued four non-Federal audits of State guarantee agencies with significant questioned costs. Two audits were issued covering different accounting periods of the Virginia State Education Assistance Authority. The other two non-Federal audits covered the Puerto Rico Higher Education Assistance Authority and the Michigan Higher Education Authority. Significant findings from these reports are summarized below.

-- One Virginia guarantee agency report identified unsupported costs of $443,000 because the guarantee agency could not provide the computation of the administrative cost allowance under the guaranteed student loan and PLUS programs. The report covering the more recent audit period, for the year ending June 30, 1989, disclosed that $3.9 million of the Department's equitable share of collections on defaulted loans had not been remitted to the Department. Another finding questioned almost $400,000 related to loans repurchased by lenders after the agency had requested reinsurance reimbursement from the Department. (ACNs 03-03153; May 18, 1990 and 03-03151; May 21, 1990)

-- The Puerto Rico guarantee agency audit disclosed that the agency had not paid lenders claims totaling $4.5 million within the 90-day time period stipulated in the regulation. The auditors questioned the $4.5 million in claims that were not paid on time. (ACN 02-03024; May 21, 1990)

-- The Michigan guarantee agency report resulted in questioned costs of $5.9 million for the agency's failure to pursue litigation procedures against borrowers who were in default for 225 days or more, as required. (ACN 05-95281; July 2, 1990)

9. SLS and PLUS programs subject to certain unique abuses

The Stafford Loan program authorizes low-interest loans to students to help pay the costs of attending eligible postsecondary institutions. PLUS and SLS loans are for the same general purpose. PLUS loans are for parents of dependent students and SLS loans are for graduate and independent undergraduate students.

During our last semiannual reporting period, we issued MIRs calling for improvements in both the SLS and PLUS programs. The SLS MIR dealt with ways to curb abuses related to unneeded loans being made. The PLUS MIR dealt with the need for additional controls, such as making the checks copayable to both the parent and the school, to prevent improper disbursements.

This period, our audits and investigations continued to reveal that SLS and PLUS loans are being improperly obtained.

MTI Business Schools and Advanced Career Training

$751,000 in SLS Funds Improperly Disbursed

Our audit of MTI Business Schools (MTI) and Advanced Career Training (ACT), New York, New York, disclosed that these schools (formerly under one corporation) failed to meet requirements for documenting the "exceptional" circumstances that precluded the parents of its dependent students from borrowing under the PLUS program prior to the students' applying for SLS loans. We estimated that $751,000 of SLS loans ($635,000 at MTI and $116,000 at ACT) were improperly disbursed by the schools. We recommended that these SLS loans be repaid. (ACN 02-90510; May 31, 1990)

PLUS Fraud

False Claims and Forgery Net One Individual $38,000 in PLUS Funds Which He Now Must Repay

In December 1989, a Federal grand jury returned a 29-count indictment charging Johnnie C. White with fraud. An OIG investigation disclosed that White received $38,000 after filing 18 fraudulent PLUS applications and forging the school's certification on each application. Recently, White pled guilty in U.S. District Court, Houston, Texas, to one count of student financial aid fraud. As part of the plea agreement, White is required to repay the Department of Education $38,000.

C. LEGISLATIVE AND OTHER CHANGES ARE NEEDED TO REMOVE TROUBLESOME SCHOOLS FROM PROGRAM PARTICIPATION

In testimony before Congress during this period, the Inspector General discussed a needed change that would facilitate the prompt removal of troublesome schools from SFA participation.

Removal of "On the Record" Hearing Requirement Needed

The Higher Education Act needs to be amended to remove the requirement for on-the-record hearings in cases involving limitation, suspension or termination of a school. In our view, all relevant issues can be fairly and expeditiously addressed with written submissions and/or oral argument. The current requirement is all too often exploited by proprietary schools that can afford to mount costly legal challenges while the flow of Federal funds continues as the hearing on the record progresses.

A rapidly emerging issue has to do with the increase in bankruptcy filings and closings among schools participating in the SFA programs.

Actions Needed to Deal With Increased Numbers of Bankrupt and Closed Schools

In some cases, these are troubled schools that perhaps should be dropped from SFA participation. However, bankruptcy filings and untimely closings can be costly to both students and taxpayers. For example, when schools close down in mid-term, students may find themselves with incomplete training and, thus, no means to find employment that will enable them to repay their student loan debts.

Of the 13 audits and inspections involving schools discussed in this Semiannual Report, 6 schools -- or chains of schools -- have filed for bankruptcy or gone out of business completely. In fiscal year 1989 alone, students attending these schools received student aid funds totaling approximately $47 million.

The Department must take steps to protect the interests of students and taxpayers from costs associated with school closings and bankruptcy filings. The Department has set up a working group to address closed/bankrupt school issues. Some of the remedies may require legislative changes and/or additional resources.

Chapter II

ELEMENTARY, SECONDARY, AND OTHER EDUCATION PROGRAMS

A. INTRODUCTION

The Office of Elementary and Secondary Education and other principal offices administer programs of financial assistance to State and local government agencies and other recipients. These programs are intended primarily to establish and improve education and training programs for the disadvantaged, handicapped, and other special populations. In FY 1990, $13.0 billion was appropriated for the various elementary, secondary, and other education programs.

This chapter highlights OIG activities during the six-month period covering elementary, secondary, and other education programs.

B. ELEMENTARY AND SECONDARY EDUCATION PROGRAMS

Anchorage School District

Overstated Child Count Results in Questioned Costs of $709,000 and Recommended Annual Savings of $177,000

Our audit of the accuracy of the number of Indian children reported by the Anchorage School District (District), Anchorage, Alaska, to the Department for the purpose of establishing its grant award for the period September 1, 1986 through May 31, 1989, disclosed questioned costs of $709,000.

The audit revealed that the District's practices for counting Indian students and maintaining required records for supporting student eligibility were in need of improvement. The District was awarded more funds than the amount to which it was entitled for the fiscal years ending June 30, 1988, 1989 and 1990. The amounts awarded for the three years totaled about $2,464,000. Of this amount, $532,000 constituted overawards for the three-year period.

We recommended that the Department require the District to refund $532,000 of Indian Education grant funds awarded because the underlying documents required to support student eligibility were not present; review the count taken and reported to the Department for the 1989-1990 school

year, and return any funds awarded for the 1990-1991 program year as a result of overstating the number of eligible students. Based on the average of the overawards for the previous three years, we estimated the overaward to be about $177,000. Finally, we recommended that the Department require the District to establish controls to ensure that the count of Indian children reported to the Department includes only those Indian children who are enrolled in the District on the count date. A more accurate count would result in an estimated savings of $177,000 for the Indian Education Program. (ACN 10-90309, June 25, 1991)

Virgin Islands Department of Education

Audit of the 1986 General Assistance Grant to the Virgin Islands Discloses Over $1.9 M in Questioned Costs

An audit of the 1986 General Assistance Grant to the Virgin Islands Department of Education disclosed questioned costs of $1,969,635. The audit, performed by the Virgin Islands Bureau of Audit and Control, covered the period June 6, 1986 through September 30, 1987.

Among the problems noted during the review were the procedures for open market purchases of emergency repairs and school reconstruction for which no competitive negotiations were conducted. Disbursements were made which did not appear to have been for the purposes intended by the grant. Grant management practices were inadequate resulting in funds being drawn down in excess of immediate need; credit balances, reflecting overexpenditures, were maintained for extended periods; and drawdowns exceeded authorizations. (ACN 02-87008, April 20, 1990)

Government of the Virgin Islands

Inability to Demonstrate Equitable Participation and Missing Records Leads to $1.9 M in Unsupported Costs

An audit of the Government of the Virgin Islands (Agency) disclosed unsupported costs totaling almost $2 million in the Chapter 2 block grant program and in the 1987 general assistance grant. The audit covered the period October 1, 1985 through September 30, 1987.

The Chapter 2 program requires that children enrolled in private elementary and secondary schools shall be provided with "secular, neutral, and nonideological services, materials, and equipment or other benefits as will assure equitable (as

compared to children enrolled in public schools) participation of such private school children is for purposes and benefits of Chapter 2."

The audit revealed that the agency does not maintain statistical data to demonstrate that the requirement to have equitable participation has been satisfied. Many of the costs associated with services provided to private and public school children were accounted for as public school costs. The agency does not have a system for allocating common costs between public and private schools.

Since the agency was not able to demonstrate that program costs were expended equitably between private and public schools, costs amounting to $369,622 in 1989 and $367,210 in 1990 are unsupported. These amounts represent the portion of grant funds expended corresponding to the related percentage of private students to total students. (ACN 02-05209; August 1, 1991)

C. ISSUES RELATED TO STATE-ADMINISTERED PROGRAMS

In addition to ensuring compliance with program-specific requirements, States must ensure that general administrative requirements applicable to all Department programs are met.

State of Ohio

Recommended Deobligation of Expired Grants Totaling $3.8 M

During our review of an audit of the State of Ohio performed by the Office of Auditor of State, we noted that the schedule of Federal financial assistance included several formula grants with unexpended and unknown balances where the authorization period had expired. Unexpended balances for grants in various adult education, Chapter 1, migrant, handicapped and Chapter 2 programs totaled $3,771,868.

We recommended that the Department follow up and deobligate the expired grant amounts. (ACN 05-90511; July 9, 1991)

State of Maine

Noncompliance with Program Requirements Leads to $[illegible] in Monetary Findings

An audit of the State of Maine performed by the State Department of Audit disclosed questioned costs of $[illegible], unsupported costs of $[illegible] and other recommended recoveries of $[illegible] in various Department of Education programs. The audit covered the period July 1, 1987 through June 30, 1988.

The report revealed questioned costs in the Handicapped State Grant program attributable to funding allocations to local education agencies being $[illegible] less than the minimum distribution requirement and administrative costs exceeding allowable limits by $[illegible]. The report recommended that procedures be established to insure adherence to mandated fund distribution requirements, and that controls be initiated to monitor administrative costs and to insure these costs are properly classified.

The report also identified unsupported costs in various handicapped vocational education and rehabilitation service programs which were attributable to: 1) overexpenditure and incorrect reporting of grants to LEA's, 2) payroll charges not being allocated properly, and 3) legal fees assessed by the Department of Attorney General being recorded as charges to Federal programs without any basis of actual benefits received or any cost allocation plan.

Other recommended recoveries related to the State's Guaranteed Student Loan Program. The report disclosed that Federal advances received by the State were not being recorded as liabilities and that as of June 30, 1988, $[illegible] from advances received from 1978 to 1988 remained to be repaid to the Federal government. (ACN: D-[illegible], August 26, 1990)

State of West Virginia

Noncompliance with the Single Audit Act of 1984 Results in $[illegible] in Unsupported Costs

An audit of the State of West Virginia disclosed unsupported costs totaling $[illegible] in various Chapter 1, Education of the Handicapped, Vocational Education, and Chapter 2 programs. The audit covered a two-year period ending June 30, 1987.

In compliance with the Single Audit Act of 1984, the State and local governments that receive federal financial assistance are provided $25,000 or more of U.S. or a State and local subrecipient audit. Governments whether State and local subrecipients have met the audit requirements covered by OMB Circulars A-128 and A-133 and 3) determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations.

For the years under review, up to 10 subrecipient reports have been reviewed by the State. Written reports concerning the reports the State finds unacceptable have been sent in accordance with applicable laws and regulations. Failure to obtain the subrecipient audit reports or a failure to meet the terms and conditions for receiving assistance funds (WCN 93-03109, August 31, 1993).

State of Texas

Audit Questioned $1.2 M of Indirect Cost Recoveries to State of Texas

An audit of the State of Texas performed by the Office of State Auditor questioned costs of $1,251,056 and other unrecommended recoveries of $140,093 in various programs administered by DES. The audit covered the period from September 1, 1988 through August 31, 1990.

The report disclosed that the funding with the greatest impact dealt with the State allocation agency's indirect cost rate. Under the provisions of the Code of Federal Regulations Part 75, certain administrative costs allocated to the indirect cost pool were unallowable. The cost of excess indirect costs recovered is estimated to be $1.1 million, of which $1,217,660 was recovered through Department programs. The report recommended the above costs be restored to reflect a settlement concerning the indirect cost.

The other questioned cost involved noncompliance with Title IV program requirements at various State universities (WCN 95-03171, September 15, 1995).

State of California

Noncompliance with Program Requirements Leads to $674,000 in Unsupported Costs

An audit of the State of California performed by the Auditor General disclosed unsupported costs totaling $674,000 in various ED programs during a one-year period ending June 30, 1988.

The report revealed that the State of California Department of Education (California) made charges totaling $674,000 to various adult education, educationally deprived children, vocational education and improving school program block grants during fiscal year 1987-88 based on undocumented or poorly documented estimates. Office of Management and Budget (OMB) Circular A-87 states that, to be allowable under a grant program, costs must be necessary and reasonable for the proper and efficient administration of grant programs. In addition, A-87 states that allocation of joint costs must be supported by formal accounting records that will substantiate the propriety of eventual charges.

The report recommended that, unless California can get approval from ED for its allocation of joint costs or approval for alternative procedures, it should require all staff whose salary costs are charged to ED programs to maintain time sheets indicating the amount of time they work on each applicable program. California should use these records of actual workloads to charge the applicable ED programs. (ACN 09-03399; August 6, 1990)

California State Department of Education

Inadequate Corrective Action Taken in Response to Single Audit Reports; $965,824 Questioned in Vocational Education Programs

During this period, we issued an audit report on the California State Department of Education (SDE). The purpose of our audit was to assess the adequacy of corrective actions taken by SDE and one of its subrecipients, the Chancellor's Office for California Community College (CCC), in response to findings reported in the single audit reports for the fiscal years ending June 30, 1987 and 1988. Our audit also sought to determine whether SDE ensured that appropriate corrective actions were taken within six months after receipt of the single audit reports.

Single audits of the State of California have identified problems with the management of Federal Vocational

Education programs funds at CCC. The single audit report for the State fiscal year ending June 30, 1987, disclosed that CCC's system for requesting Federal vocational education program funds from SDE did not limit the requests to CCC's immediate needs. The report also disclosed that CCC did not have expenditures to support the receipt of approximately $965,000 in Federal Vocational Education program funds for the fiscal year ending June 30, 1984.

The single audit report for the State fiscal year ending June 30, 1988, reported that CCC continued to make cash requests in excess of immediate needs during that year. The report recommended that CCC request Federal Vocational Education program funds from SDE only when it needed the funds for immediate disbursement.

Our audit revealed that CCC had implemented adequate procedures to ensure that cash receipts under the Vocational Education program did not exceed its immediate needs. Under current CCC procedures, it submits cash requests to SDE only when a disbursement is actually to be made.

However, SDE had not resolved the finding in the 1987 single audit that $965,624 of fiscal year 1984 funds had been drawn down under the State's letter of credit, but were still unspent years later. At the time of our review, those funds remained unexpended and on deposit in the State Treasury.

We recommended that the Department's Director of Financial Management Services require SDE to return to the Department the $965,624 of Federal funds to which CCC was not entitled, and require SDE to establish controls to ensure that future findings reported in the California State single audit reports regarding its subrecipients are appropriately resolved within the six-month time frame established by OMB Circular A-128. (ACN 09-00572; June 25, 1990)

Chapter III
GENERAL DEPARTMENT MANAGEMENT

A. FINANCIAL MANAGEMENT

The Department's accounting system is comprised of a general ledger and various subsystems that feed financial data to the Primary Accounting System (PAS). Collectively, these systems are intended to provide accountability over the thousands of transactions totaling over $24 billion annually. Because of the types of problems described below, the Department's statements of financial condition do not flow from and are not supported by its accounting system. Further, the Department's 1989 Federal Managers' Financial Integrity Act report to the President and Congress concluded that the Department's system did not conform with the principles, standards and related requirements prescribed by the Comptroller General.

Over the past several years, we have completed reviews of elements of the Department's PAS and eight of its subsystems. Our audits have consistently shown similar weaknesses in internal controls within the subsidiary systems. Specifically, we found that subsystems lack effective accountability over accounts receivable and unliquidated obligations. Also, the subsystem managers have never reconciled the general ledger with the subsystems or with reports to the Department of the Treasury.

During this period, we issued audit reports on selected balances on the Report on Financial Position (SF 220) and the Indian Education Financial Management Subsystem. These two audits are described in detail below.

Report on Financial Position

Department's General Ledger Differed with FY 1988 Report on Financial Position By as Much as $21 B

Our audit of selected balances on the Department's Report on Financial Position (SF 220) for fiscal year 1988 found that the Department lacked effective accountability and internal control over billions of dollars in appropriation fund balances. Since the Department's inception in 1980, the general ledger has not been completely reconciled to its subsidiary records. As a result, differences in the billions of dollars were allowed to accumulate in the general ledger for years without being resolved.

Specifically, we selected three balances (Fund Balances With Treasury, Accounts Payable, and Unexpended Appropriations) from the Department's Report On Financial Position for fiscal year 1988 and found that the

balances differed with the balances in the general ledger by as much as $21 billion. As a result of the large differences, Financial Management Service (FMS) managers believed that the general ledger was inaccurate and therefore could not be depended upon to report the results of the Department's financial position. Consequently, FMS relied on balances provided by Treasury to prepare the SF 220.

In addition, the 1988 SF 220 was overstated by $3 billion because of a reporting error. We also noted that adjustments made by FMS to correct differences between Treasury balances and the general ledger were not always adequately supported. Further, FMS was unable to provide us with documentation to show how it reduced differences in the Fund Balances With Treasury account by some $52 billion.

We issued an adverse opinion on the balances on the SF 220 for fiscal year 1988 that we selected for review because: 1) the balances were not prepared from balances in the general ledger; 2) estimates were used for Accounts Payable that were not supportable by management; 3) appropriate disclosures were not made to identify the sources of and bases for the reported balances; and 4) the $3 billion reporting error affected the selected balances.

We recommended certain corrective actions that we believe will establish confidence in the general ledger and integrity in the Department's financial statements. We also recommended that the Deputy Under Secretary for Management review the resource needs of FMS and give consideration to increasing those resources, if necessary, to establish a formal reconciliation section. In addition, we recommended that FMS be held accountable for bringing the general ledger into balance with supporting records and various reports submitted to Treasury. (ACN 11-70263; September 13, 1990)

Indian Education
Financial Management Subsystem

Significant Weaknesses Identified in Funding-allocation Process

Our review of the Indian Education Financial Management Subsystem disclosed significant weaknesses in the processes for: 1) selecting local education agencies (LEAs) for site reviews; 2) entering all data in the subsystem timely; and 3) closing out grants in a timely manner. The Indian Education Financial Management Subsystem is used to distribute over $46 million in formula grants to LEAs and Indian-controlled schools annually. Since the subsystem is used to allocate grant funds based on data reported by the LEAs, the Office of Indian Education (OIE) is required to conduct site reviews.

The OIE was not conducting the proper number of site reviews each year as required by law. As a result, we estimate that over $1 million in grant awards went unreviewed during academic year 1988-89. Further, if OIE concentrated its site reviews on the larger LEAs and adjusted the grant awards to the extent that the LEAs do not have adequate support, then OIE would have allocated at least $1.1 million more effectively.

We also found that OIE had not closed all its year-end accounts. As a result, approximately $290,000 was open on the Department's Primary Accounting System and therefore subject to unauthorized use by the LEAs.

We recommended that the Office of Elementary and Secondary Education (OESE) implement a stratified sampling plan using dollar amounts of grant awards as the criteria for selection. The larger the grant award, the higher the probability of the LEA being selected for review. We also recommended that OIE management establish a system to track all adjustments made to student counts, and that OIE supervisors review all adjustments periodically and before authorizing awards. (ACN 11-90200; August 17, 1990)

B. DEBARMENT AND SUSPENSION ACTIONS CONTINUE

The Department of Education participates in the Federal government-wide system for nonprocurement debarment and suspension. This system provides a mechanism under which a Federal agency can debar or suspend an individual or organization from conducting

nonprocurement transactions with all Federal agencies or from acting as an agent or representative performing these transactions.

1. Statistical Summary

The following statistical summaries provide an overview of OIG requests during the period for departmental action to debar or suspend organizations or individuals from participating in Federal programs, and of OIG actions to suspend and to propose debarment of certified public accountants (CPAs).

Departmental Actions

Department Debars 15, Suspends 3, Proposes 7 Additional Actions

This period, the OIG asked the Department to take action to debar or suspend 17 individuals and/or entities under the Federal nonprocurement debarment and suspension regulations.

Since October 1, 1988, the OIG has requested departmental debarment or suspension action involving 118 persons and/or entities, including CPAs for substandard audit work while doing business with the Department.

This period, the Department debarred 15 individuals/ organizations, suspended 3, and proposed debarment or suspension action involving 7 other subjects.

OIG Actions

OIG Suspends 3 CPAs Under New Authority

The OIG this period was delegated authority for proposing debarments and issuing suspensions in actions against certified public accountants who audit Department grantees, subgrantees, or contractors of those entities, or participants in the Department's SFA programs.

During the six-month period, OIG suspended three CPAs and also proposed departmental debarment action against the three.

2. Highlights of Departmental Actions Taken During the Period

This period, the Department debarred the former owner of Broussard Schools, Inc., doing business as Texcel Career Center (now closed), Houston, Texas (see Semiannual Report No. 19, page 24); debarred the former owner and four employees of LaTee's Beauty School (now closed), Chicago, Illinois (see Semiannual Report No. 16, page 44); debarred the former owner and president of Hartford Modern School of Welding, Hartford, Connecticut; and debarred Gabler Educational Management Services, Inc., Lincolnshire, Illinois, whose primary business was servicing student loans with an emphasis on default prevention.

3. Highlights of OIG Actions Taken During the Period

This period we sent a suspension letter to a CPA employed by Puerto Rico Academy of Cosmetology, Inc., to conduct financial and compliance audits of the institution's participation in the Pell Grant program. The CPA, Jaime Cervera, was previously indicted on charges of making a false, fictitious, and fraudulent statement in an audit report on the school's participation in the SFA programs for the award year ending July 30, 1986. The suspension will remain in effect pending the outcome of the criminal proceedings resulting from the indictment.

C. CONTRACT ADMINISTRATION

The OIG performs contract preaward and closeout audits to assist the Office of Management, Grants and Contracts Service in administering the Department's contracting function. Preaward audits are conducted to determine whether costs proposed by prospective contractors are reasonable, allowable and allocable as set forth under the Department's cost principles. Closeout audits are performed to determine whether costs claimed for completed contracts are reasonable, allowable, and allocable.

Grants and Contracts Service advised the OIG it had awarded contracts on which we had issued seven preaward audit reports. Recommended adjustments to proposed contracts of the successful bidders totaled $165,266 (24 percent sustained), and inadequately supported costs totaled $444,675 (13 percent sustained).

The data on preaward audits is not comparable with other audit resolution data in this report. Typically, a preaward report is based upon a vendor's initial cost/price proposal which may be revised one or more times before award of the contract. Since the final negotiated amount is not always directly linked to each initial finding, estimates and extrapolations are used in determining the amount sustained.

Chapter IV
NON-FEDERAL AUDIT ACTIVITIES

A. INTRODUCTION

In addition to the work conducted by the OIG, audits of the Department's programs are performed by State and local governmental auditors and by independent public accountants.

State and local entities must submit organization-wide single audits in accordance with the Single Audit Act of 1984 (P.L. 98-502), as implemented by OMB Circular A-128, "Audits of State and Local Governments."

The Higher Education Act of 1965, as amended by P.L. 99-498, requires postsecondary institutions to have audits of their student financial assistance programs at least every two years. Most postsecondary institutions have program-specific audits in accordance with the Department's SFA audit guide. Some State, local, and private institutions satisfy this requirement with A-128 organization-wide audits.

Circular A-128 allows State and local colleges and universities to satisfy their SFA audit requirement under Attachment F of OMB Circular A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations." Private colleges and universities and other nonprofit entities can also submit organization-wide audits in accordance with Circular A-110 to satisfy the SFA audit requirement. This requirement will be superseded by OMB Circular A-133 for audit periods beginning on or after January 1, 1990.

The OIG is responsible for assuring that work performed by non-Federal auditors complies with the standards established by the Comptroller General. To accomplish this, we conduct desk reviews for each non-Federal audit report and, on a sample basis, conduct quality control reviews (QCRs) of the supporting audit work. Reports can be selected for QCR either randomly or on a judgmental basis if deficiencies are suspected. We also participate in QCRs led by other cognizant agencies on certain Statewide single audit reports. In addition, the OIG works with recipient organizations and auditors to assure that audit requirements are met and with Department officials to assure the timely resolution of audit findings.

B. STATISTICS

During this period, we issued 1,414 SFA audit reports prepared by non-Federal auditors and 709 single audit reports prepared in accordance with OMB Circular A-128 or its predecessor, Circular A-102, Attachment P. In addition, we issued one non-Federal audit report of a general assistance grant. A summary of those reports' monetary recommendations follows.

The 1,414 SFA program audit reports issued during the period included questioned costs of $3.3 million and unsupported costs of $7.7 million. Included in the 1,414 reports were 1,340 done in accordance with the Department's SFA audit guide, 69 organization-wide audits prepared in accordance with OMB Circular A-110, and 5 reports on guarantee agencies.

A total of 709 single audit reports were issued during the period. These reports questioned costs of $19.8 million and identified unsupported costs of $30.8 million in program funds provided directly by the Department. For 67 of these single audit reports, the Department is the cognizant agency; that is, the agency responsible for overseeing the implementation of the requirements of the Single Audit Act. For 396 of the reports, the Department has the lesser responsibility of general oversight. General oversight responsibility usually consists of working through direct recipients to assure that subrecipients meet their audit requirements, and providing technical assistance when requested. The remaining 246 reports are from entities for which other Federal agencies have cognizance or general oversight responsibility.

In the one audit of a general assistance grant, the non-Federal auditor questioned about $2 million.

C. QUALITY OF NON-FEDERAL AUDITS REMAINS A MAJOR CONCERN

The results of our desk and quality control reviews are summarized by audit and preparer type in the chart on the following page.

Of major concern is the fact that 63 percent of SFA program audits prepared by independent public accountants (IPAs) and subjected to quality control reviews (QCRs) required major changes or were significantly inadequate. Of the audits judgmentally selected, 74 percent required major changes or were significantly inadequate this period. Forty-four percent of the randomly selected audits required major changes or were significantly inadequate.

D. REVIEW OF STATE EDUCATION AGENCY OVERSIGHT OF SINGLE AUDITS

During this period, we completed reports on audits of three SEAs (Idaho, Alabama, and Connecticut) concerning the adequacy with which they met their responsibilities for subrecipient audits under OMB Circular A-128. We had previously issued 15 such reports.

SUMMARY OF RESULTS OF ED-OIG REVIEWS OF AUDITS BY NON-FEDERAL AUDITORS

	SINGLE AUDITS WHERE ED-OIG IS COGNIZANT			SEA PROGRAM AUDITS ISSUED BY ED-OIG			GRAND TOTAL
TYPE OF REVIEW	IPA	OTHER GOVT AUDITOR	TOTAL	IPA	OTHER GOVT AUDITOR	TOTAL	
DESK REVIEWS							
ISSUED - NO CHANGE	9 - 64%	42 - 98%	51 - 89%	799 - 68%	48 - 65%	836 - 61%	887 - 62%
ISSUED - MINOR CHANGE	0 - 0%	0 - 0%	0 - 0%	78 - 6%	1 - 2%	79 - 6%	79 - 6%
ISSUED - MAJOR CHANGE	5 - 36%	1 - 2%	6 - 11%	337 - 26%	5 - 11%	342 - 25%	348 - 24%
SIGNIFICANTLY INADEQ	0 - 0%	0 - 0%	0 - 0%	111 - 9%	1 - 2%	112 - 8%	112 - 8%
TOTAL DESK REVIEWS	14 - 100%	43 - 100%	57 - 100%	1,329 - 100%	47 - 100%	1,367 - 100%	1,424 - 100%
QCRS							
ISSUED - NO CHANGE	1 - 33%	3 - 27%	4 - 29%	29 - 31%	0 - 0%	29 - 31%	33 - 31%
ISSUED - MINOR CHANGE	1 - 33%	3 - 27%	4 - 29%	6 - 6%	0 - 0%	6 - 6%	10 - 9%
ISSUED - MAJOR CHANGE	0 - 0	0 - 0	0 - 0	13 - 14%	0 - 0%	13 - 14%	13 - 12%
SIGNIFICANTLY INADEQ	1 - 33%	5 - 46%	6 - 43%	46 - 49%	0 - 0%	46 - 49%	52 - 48%
TOTAL QCRS	3 - 100%	11 - 100%	14 - 100%	94 - 100%	0 - 0%	94 - 100%	108 - 100%
TOTAL	17	54	71	1,414	47	1,461	1,532

The objective of these audits was to determine whether the State education agencies established procedures to ensure that:

- audits of their school districts or other subrecipients met audit requirements in a timely manner;
- audits of their subrecipients met generally accepted government accounting standards and A-128 requirements;
- audits of their subrecipients are reviewed and processed in a timely manner; and
- resolution of audit findings is appropriate and performed in a timely manner.

Our audits included a review of the States' procedures and a limited number of judgmentally selected quality control reviews of audits of school districts in each State.

Of the 10 audits completed to date, 3 disclosed no significant deficiencies with the State's execution of its oversight responsibilities, 1 report disclosed untimely resolution of audit findings, 10 reports disclosed deficiencies related to audit quality and 8 disclosed deficiencies in a number of different areas. For the 15 States where deficiencies were disclosed, we recommended appropriate corrective actions.

E. NON-FEDERAL AUDIT REFERRALS

The OIG refers certified public accountants for disciplinary action to State boards of accountancy and, when appropriate, to professional societies, for violating generally accepted government auditing standards.

1. Referrals This Period

Since April 1, 1985, we have made 60 referrals of independent public accountants, including 8 this period. In all eight of the current referrals, the CPA did not have working papers to support the tests of compliance requirements or internal control review. In these eight cases, we referred the individuals to their respective State licensing boards. We also referred all eight of the CPAs to the American Institute of Certified Public Accountants' (AICPA) Professional Ethics Division for disciplinary action. We were advised that the AICPA had begun an initial review in four of these cases.

2. Actions Taken This Period on Previous OIG Referrals

During this period, we were advised of actions taken by State boards or the AICPA on some of the referrals we have made. Examples of these actions are presented in the following paragraphs.

Actions on Referrals to State Boards

- In one instance, the CPA was placed on probation for two years and required to cease performing audit work until he could demonstrate proficiency in all aspects of auditing. In addition, he was required to complete 80 hours of continuing professional education, submit his practice to review and pay the State board several thousand dollars to cover the cost of investigating the referral.

Actions on Referrals to the AICPA

- In one instance, we were advised that the CPA must complete 40 hours of continuing professional education within 2 years.

- In another instance, the CPA will be required to complete 80 hours of continuing professional education within 2 years. In addition, the CPA must submit subsequent work products for review by the AICPA.

Chapter V

STATISTICAL SUMMARY

A. AUDIT ACTIVITIES

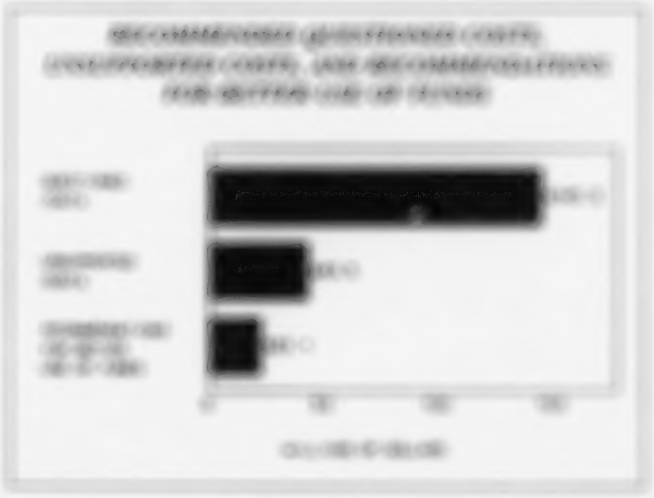
Audit activities during the period continued to provide the Department with a program of internal and external audit services designed to maximize opportunities for improving the economy, efficiency and effectiveness of programs administered by the Department and by the recipients of Department funds. The audit reports (see Chapters I, II, III and IV of this report) included numerous significant procedural recommendations addressed to Department officials, grantees and other participants in delivery of Department programs and directed toward improving procedures with respect to the administration of programs funded by the Department. The reports also included recommendations directed toward recovering Federal funds that were not expended in accordance with program requirements. Resolution of audit recommendations is the responsibility of Department officials.

B. Reports Issued During the Period

Summary of Results

Monetary Findings
Total $215,000

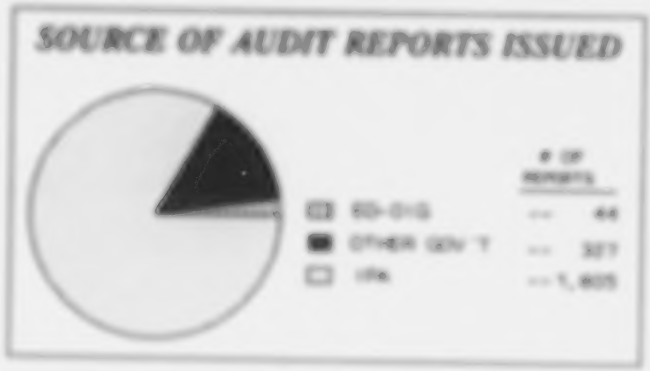
During the six-month period, monetary findings totaled $215,000 million. This amount was comprised of questioned costs, unsupported costs, and recommendations for recovery of funds as shown in the chart below. These statistics include the results of audits described in previous chapters of this report.



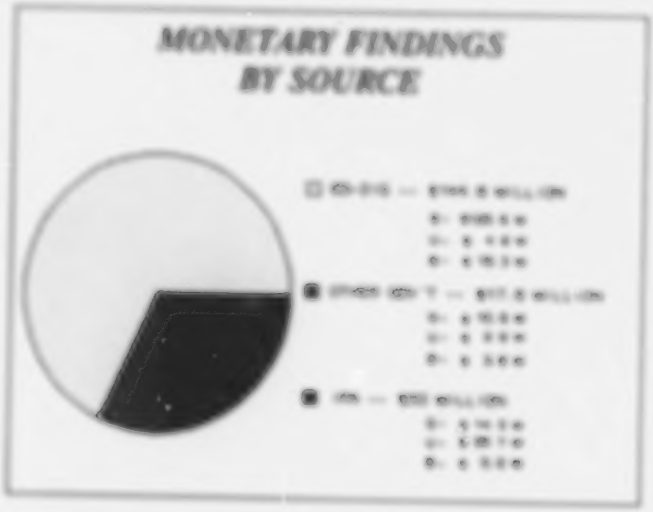
Source of Audits

2,176 Audit Reports Issued This Period

The 2,176 audit reports issued during this period were completed by our own staff, or by other Federal auditors, State and other non-Federal governmental auditors and independent public accountants. The source of the audit reports issued this period is illustrated by the chart below.

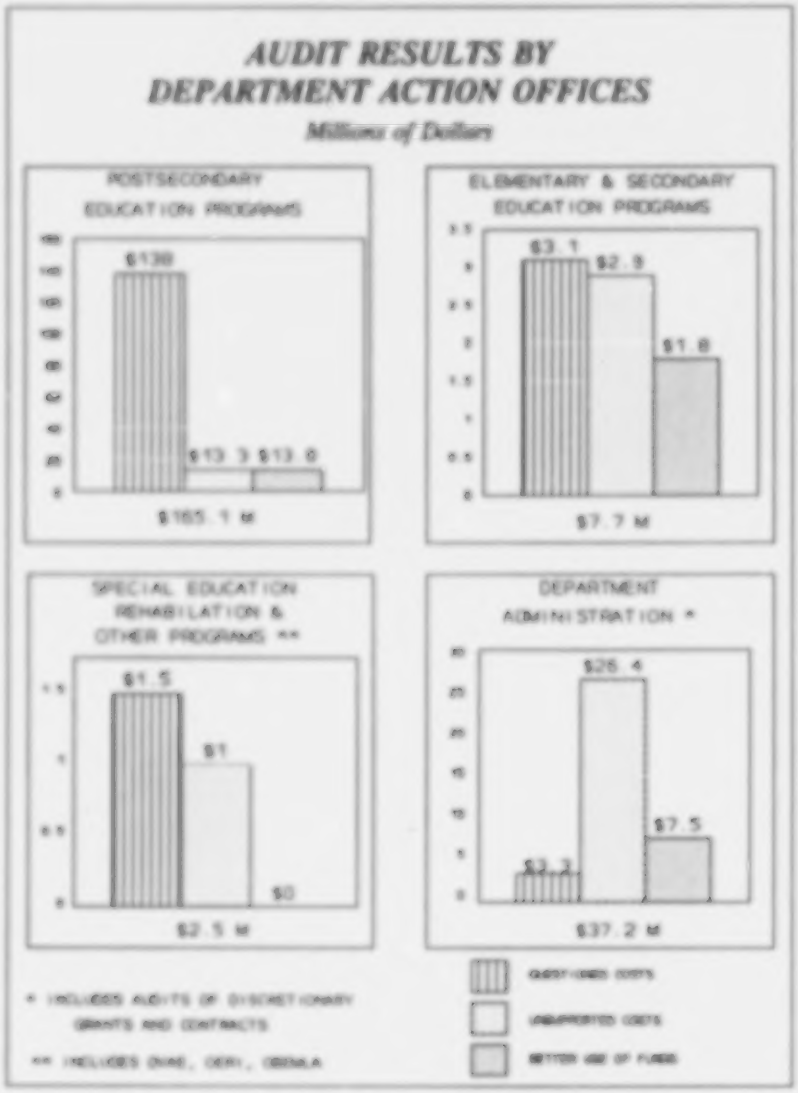


Eight hundred nine of these reports contained findings that required action by the Department's resolution officials. Reports prepared by OIG auditors contained $144.8 million in questioned costs (Q), unsupported costs (U) and recommendations that funds be put to better use (B). These amounts exclude preaward audits that have not been resolved.



Monetary Findings by Organization

Audit reports issued this period contained $212.4 million in questioned costs, unsupported costs, and recommendations for better use of funds. The following chart illustrates the amount of costs in these categories contained in reports issued to or affecting major Department action offices.



NOTE: Throughout this report, total figures that have been rounded may differ slightly from the sum of component figures that have been rounded.

2. Audit Resolution and Recovery of Funds

Department program officials are responsible for the resolution of findings disclosed in our audit reports. This section details audit resolution activities during this reporting period. Data for reports with monetary findings is shown in tabular form in Appendix 2.

Audit Reports Unresolved as of April 1, 1990

At the beginning of the reporting period, April 1, 1990, the Department had 742 unresolved audit reports. An unresolved audit report is an audit report for which no management decision has been made on the findings and recommendations. These reports contained questioned costs and other recommended recoveries of $666.1 million, unsupported costs of $101.3 million and recommendations for better use of funds totaling $176.3 million.

Audit Reports Resolved This Period

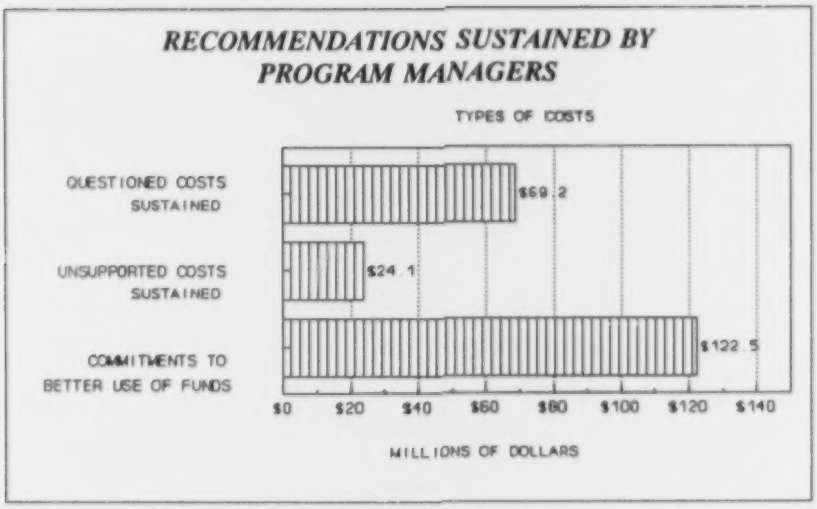
A total of 759 audit reports were resolved during the six-month period from April 1, 1990 through September 30, 1990. Statistics on sustainment of recommendations contained in these reports follow.

Department Managers Resolve 759 Audit Reports, Sustain $215.9 M

Department program officials sustained $69.2 million (72 percent) of the $95.8 million of questioned costs in these reports and $24.1 million (71 percent) of the $34.0 million of unsupported costs. Of the total $93.3 million sustained, $21.6 million was uncollectible. An additional $4.5 million was identified for recovery by program managers during the resolution process. Consequently, total demand for recovery amounted to $76.2 million.

In addition, Department officials sustained $122.5 million (87 percent) of our recommendations for better use of funds (BUF). A total of 1,354 audits were administratively closed without letters of determination by Department officials.

The following chart illustrates the recommendations sustained by Department program managers.



The table below shows the sustainment rate for audit reports prepared by the OIG that were resolved during this period.

SUSTAINMENT RATE ON AUDIT REPORTS PREPARED BY OIG

	RECOMMENDED	*SUSTAINED*	*RATE*
QUESTIONED COSTS	$ 88,143,313	$65,764,034	75%
UNSUPPORTED COSTS	17,982,985	17,982,985	100%
BETTER USE OF FUNDS	141,362,095	122,549,354	87%
TOTAL	$247,488,393	$206,296,373	83%

In addition to sustainment in OIG-prepared reports, during this six-month period ED program officials sustained $3.4 million (45 percent) of the $7.6 million of questioned costs and $6.1 million (38 percent) of the $16.0 million of unsupported costs in reports prepared by IPAs and other governmental auditors.

3. Recoveries This Period

During this period, $37.5 million (including interest and penalties) was recovered as a result of audits resolved during this or previous periods.

4. Audit Reports Unresolved as of September 30, 1990

At the end of this reporting period, there were 795 reports which remained unresolved within the Department. These reports contain questioned costs and other recommended recoveries of $715.1 million, unsupported costs of $110.6 million, and recommendations for better use of funds totaling $58.0 million.

Included in the above totals are 40 audit reports over six months old, with questioned or unsupported costs of $627.7 million and $35.5 million recommended for better use. A management decision on most of these reports is expected to be made by program officials in the near future.

5. Status of Prior Audit Recommendations

Appendix 4 contains a listing of audit reports issued before the commencement of the reporting period for which no management decision had been made by the end of the reporting period.

B. INVESTIGATION ACTIVITIES

The OIG is responsible for investigating allegations of fraud and abuse relating to the Department's programs and operations. These investigations may be of individual recipients of Federal funds or of those who benefit from or administer the Department's programs. The OIG also investigates allegations of misconduct by Department employees. OIG investigative findings often result in criminal prosecutions at the Federal, State or local level. They may also form the basis for administrative action by program officials or for civil action initiated by the Department to recover funds.

Investigative activities during this reporting period showed significant results, as summarized in the following chart.

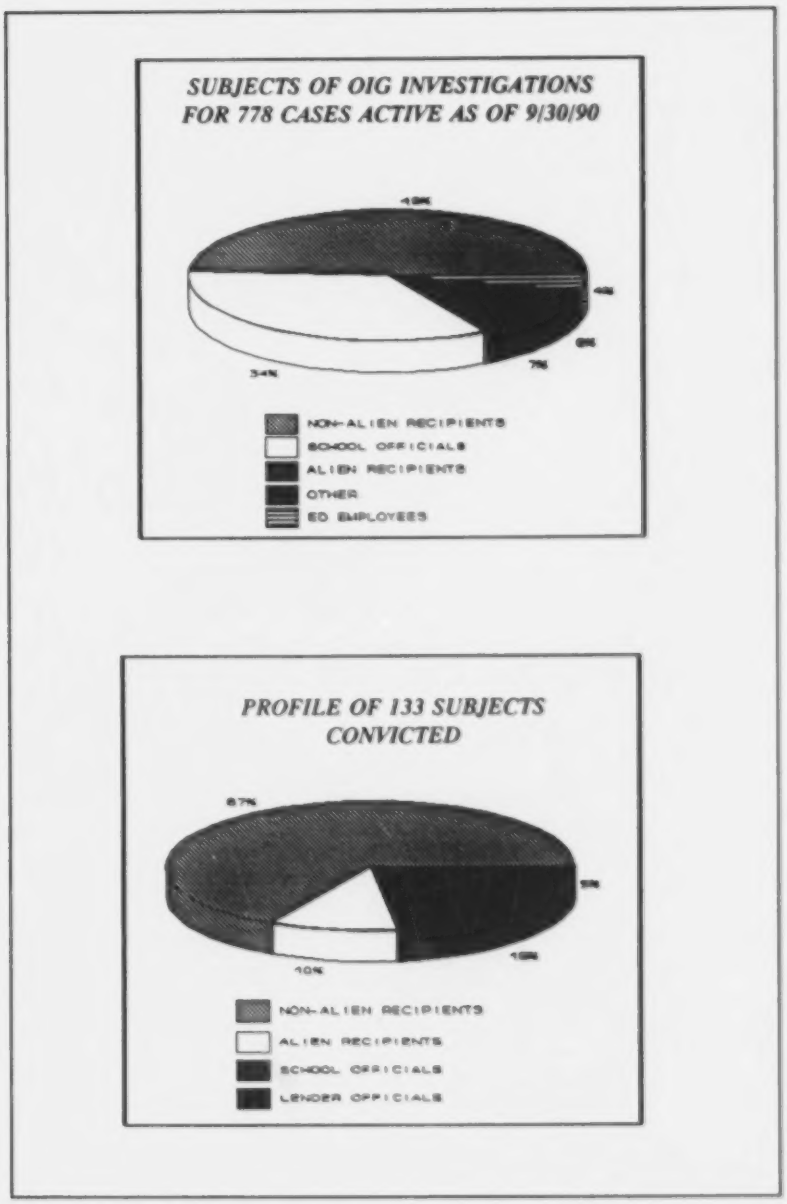
SUMMARY OF RESULTS

--Cases Active at 9/30/90	778
--Cases Opened	311
--Cases Closed	254
--Cases Referred for Prosecution	188
*--Cases Accepted	133
--Cases Declined	55
+--Indictments/Informations	127
**--Convictions/Pleas	113
--Civil Filings	3
--Fines Ordered	$ 2,734,002
++--Restitutions Ordered	$17,609,467
--Restitution Payments Collected	$ 1,319,003
#--Recoveries	$ 354,924
--Civil Settlements	$ 1,051,268
##--Savings	$13,213,721

**Includes 4 civil actions.*
+Includes 6 actions previously unreported.
***Includes 7 previously unreported actions and 25 pre-trial diversions.*
++Includes $6,317 in restitutions ordered, previously unreported.
#Includes $339,875 in late student loan refunds made to a guarantee agency.
##Represents $13.2 M in guaranteed student loans declared permanently ineligible for Federal reinsurance per a civil settlement between a lender and the government.

Subjects of OIG Investigations

The charts following charts indicate that, for both cases opened during the period and cases active at the end of the period, most investigative subjects were individual recipients.



C. MANAGEMENT IMPROVEMENT REPORTS

A management improvement report is a memorandum report to Department management recommending corrective action relative to an area where an opportunity for improvement beyond the immediate scope of a particular audit, review or investigation was identified in the course of that effort. These memorandum reports are issued in addition to, or rather

than, formal audit or investigation reports because of either the limited scope of our work or the nature of the issue.

During the period, management resolved 10 MIRs, sustaining $58 million in recommendations for better use of funds. As of the end of the period, eight MIRs were unresolved. This includes the following MIRs which are over six months old:

MIR No.	*Title*	*Issue Date*
89-09	Course Stretching	09/27/89
90-02	Improving Ability to Benefit Determinations in SFA Programs	11/15/89
90-08	Weakness in Disbursing PLUS Loan Checks	02/14/90
90-09	Noncompliance with GSL Due Diligence Requirements	02/14/90
90-10	Payment of Stafford Loan Origination Fees	02/14/90
90-11	Supplemental Loans for Students	02/14/90
90-12	Third Party Servicers in the GSL Programs	02/14/90

Chapter VI
BACKGROUND AND OVERVIEW

A. INTRODUCTION

The OIG was established May 4, 1980, pursuant to provisions of the Department of Education Organization Act (P.L. 96-88). Section 508(n) of the Act amended the Inspector General Act of 1978 (P.L. 95-452) to provide for an Office of Inspector General in the Department of Education. Public Law 100-504, the Inspector General Act Amendments of 1988, amended P.L. 95-452 in several important ways, among them by establishing reporting requirements to ensure uniformity and reliability of OIG audit and semiannual reports.

B. MISSION OF THE DEPARTMENT

The purposes of the Department, as provided in P.L. 96-88, include in part:

- To strengthen the Federal commitment to assuring access to equal educational opportunity for every individual;

- To supplement and complement the efforts of States, the local school systems and other instrumentalities of the States, the private sector, and other concerned organizations and individuals (as specified in the legislation) to improve the quality of education;

- To improve the management and efficiency of Federal education activities; and

- To increase the accountability of Federal education programs to the President, the Congress, and the public.

C. OIG MISSION

The Inspector General heads an independent organization responsible for audit, investigation, fraud prevention and detection, and designated security functions relating to programs and operations of the Department.

The purposes of the OIG, as provided in P.L. 95-452, are:

- To conduct and supervise audits and investigations relating to programs and operations of the Department of Education;

- To provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations; and

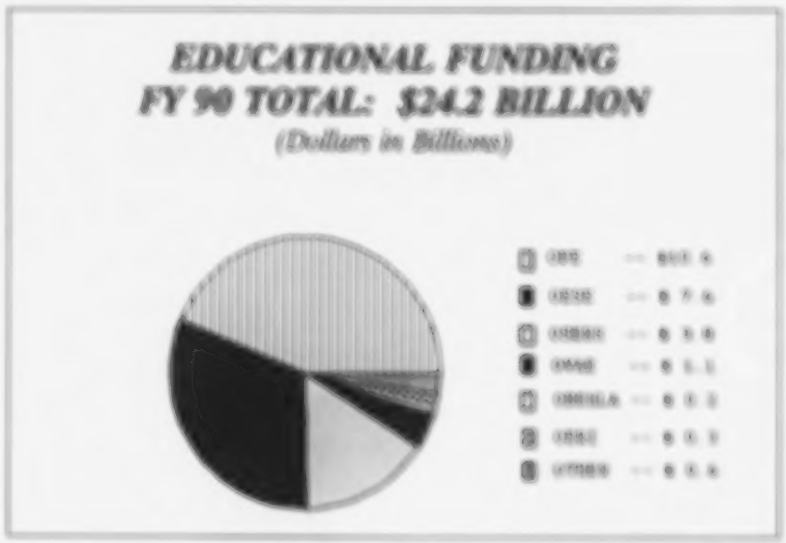
- To provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

In carrying out the duties and responsibilities established under the Inspector General Act, the OIG has authority to inquire into all program and administrative activities of the Department, as well as related activities of all parties performing under contracts, grants, or other agreements with the Department. These inquiries may be through audits, investigations, or other appropriate measures.

D. DEPARTMENTAL ORGANIZATION AND FUNDING

The principal offices in the Department that administer programs are the Offices of Postsecondary Education (OPE), Elementary and Secondary Education (OESE), Special Education and Rehabilitative Services (OSERS), Vocational and Adult Education (OVAE), Educational Research and Improvement (OERI), and Bilingual Education and Minority Languages Affairs (OBEMLA).

The Department's FY 1990 funding totaled $24.2 billion. Funding distribution is shown in the chart below and referenced throughout this report.



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SEMIANNUAL REPORT
Office of Inspector General
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202-1510

REPORTING REQUIREMENTS

Indexed below are specific reporting requirements prescribed by the Inspector General Act of 1978, as amended.

Section 4(a)(2) – Review of Legislation and Regulations ..... Page xi

Section 5(a)(1) – Significant Problems, Abuses and Deficiencies ..... Pages viii-x and 1-35

Section 5(a)(2) – Recommendations with Respect to Significant Problems, Abuses and Deficiencies ..... Pages 1-35

Section 5(a)(4) – Matters Referred to Prosecutive Authorities ..... Page 47

Sections 5(a)(5) and 6(b)(2) – Summary of Instances Where Information was Refused ..... *

Section 5(a)(6) – Listing of Audit Reports ..... Page 56

Section 5(a)(7) – Summary of Significant Audits ..... Pages 1-35

Section 5(a)(8) – Audit Reports Containing Questioned Costs ..... Page 54

Section 5(a)(9) – Audit Reports Containing Recommendations That Funds Be Put to Better Use ..... Page 55

Section 5(a)(10) – Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period ..... Page 58

Section 5(a)(11) – Significant Revised Management Decisions ..... **

Section 5(a)(12) – Significant Management Decisions with Which OIG Disagreed ..... ***

* *There are no instances where information or assistance was unreasonably refused or not provided.*
** *There are no significant revised management decisions.*
*** *There are no significant management decisions with which OIG disagreed.*

Table 1

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS
(Dollars in Thousands)

		Number	Questioned Costs	Unsupported Costs [1]
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	301	$766,316	$101,197
B.	Which were issued during the reporting period	288	189,372	40,388
	Subtotals (A + B)	1,189	$955,588	$141,585
C.	For which a management decision was made during the reporting period	559	$139,892	$ 16,333
	(i) Dollar value of disallowed costs		$ 93,519	$ 39,151
	(ii) Dollar value of costs not disallowed		$ 36,492	$ 9,913
D.	For which no management decision has been made by the end of the reporting period	617	$815,784	$124,027
E.	For which no management decision was made within six months of issuance	39	$427,701	$ 47,339

[1] Included in Questioned Costs

Table 9

[illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible]
(Dollars in Thousands)

		Number of Reports	Dollar Value
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	(a)	$ (76,181)
B.	Which were issued during the reporting period	(b)	(3,127)
	Subtotals (A + B)	(c)	$ (99,179)
C.	For which a management decision was made during the reporting period	(d)	$ 61,362
	(i) Dollar value of recommendations that were agreed to by management		$ 23,169
	(ii) Dollar value of recommendations that were not agreed to by management		$ (8,653)
D.	For which no management decision has been made by the end of the reporting period	(e)	$ 38,014
E.	For which no management decision was made within six months of issuance	(f)	$ 15,169

EDGOD AUDITS OF EDUCATION DEPARTMENT PROGRAMS AND ACTIVITIES
(APRIL 1, 1990 THROUGH SEPTEMBER 30, 1990)

"Inclusion" is [illegible] of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 49 audit reports were completed by EDGOD auditors. These reports are listed below.

ACN	AUDIT/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (including amount not supported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION						
01-70005	CONSOLIDATED STUDENT LOAN HOLDERS, REFUNDS	MA	AUG-90			$ 4,500,000
02-80004	PRIVATE BANKING AND SYSTEMS INSTITUTE	NY	AUG-90	$ 32,000		
02-80001	PUERTO RICO TECHNOLOGY AND BEAUTY COLLEGE	PR	JUN-90	1,337,617		
02-90014	MTI BUSINESS SCHOOLS AND ADVANCED CAREER TRAINING	NY	MAY-90	751,000		
03-80002	ICM SCHOOL OF BUSINESS	PA	JUN-90		**	
04-90004	UNITED CAREER CENTERS	FL	JUN-90	4,400,000		1,000,000
05-80001	SUPERIOR TRAINING SERVICES, INC.	IL	APR-90	9,551	$ 9,971	
05-80011	HARRISON BUSINESS COLLEGE	OH	JUN-90	2,174		
05-90004	HEWLETT ARMSTRONG COLLEGE	IL	APR-90	299,933	472,592	19,500
05-90007	HARRISON ADULT EDUCATION & CAREER TRAINING CENTER, INC	IL	SEP-90	1,135,437	4,961,971	
06-80004	CAREERS VOCATIONAL TRAINING SCHOOL	TX	APR-90	3,266,000		
06-90007	HATTIESBURG TECHNICAL SCHOOL	TX	JUN-90	3,977,117		454,000
06-90008	LOUISIANA SCHOOL OF PROFESSIONS	LA	JUN-90	80,000		
06-90010	EDUCATION BUSINESS COLLEGE, INC.	LA	JUN-90	1,422,879		2,400,000
07-90007	ST. MARY OF THE PLAINS	KS	SEP-90	94,500,000		
09-90005	WEBSTER CAREER COLLEGE	CA	SEP-90	5,000,000		4,500,000
09-90008	ADVANCED TECHNICAL COLLEGE	CA	SEP-90	47,574		10,000
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION						
03-90009	OAKHILL YOUTH CENTER	DC	SEP-90	97,191		
09-80010	COLORADO DEPARTMENT OF EDUCATION	CO	AUG-90		**	
10-90006	INDIAN EDUCATION PROG., NORTHWEST ARCTIC BOR. SCHOOL DIST.	AK	JUN-90	171,000		97,750
10-90009	INDIAN EDUCATION PROG., ANCHORAGE SCHOOL DISTRICT	AK	JUN-90	709,000		177,000
11-90008	OFFICE OF INDIAN EDUCATION	DC	AUG-90			1,743,000
OFFICE OF VOCATIONAL AND ADULT EDUCATION						
03-90005	DELAWARE DEPARTMENT OF PUBLIC INSTRUCTION	DE	MAY-90	4,845	72,852	

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF MANAGEMENT						
GRANTS AND CONTRACTS SERVICE						
01-00400	ABT ASSOCIATES, INC.	MA	MAY-90		*	
01-00401	THE NETWORK, INC.	MA	AUG-90		*	
03-00400	APPALACHIAN EDUCATION LABORATORIES	WV	SEP-90		*	
03-90407	PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AGENCY	PA	AUG-90		*	
03-90425	AMERICAN INSTITUTE FOR RESEARCH	DC	JUN-90		*	
03-90427	COMSIS CORP.	MD	APR-90		*	
03-90428	GEORGE WASHINGTON UNIVERSITY	DC	APR-90		*	
03-90432	KPMG PEAT MARWICK	DC	APR-90		*	
03-90433	PRICE WATERHOUSE	DC	JUN-90		*	
03-90451	EXPAND ASSOCIATES, INC.	MD	JUN-90	26,203		
04-00401	RESEARCH TRIANGLE INSTITUTE	NC	JUN-90		*	
04-00403	SOUTHEASTERN EDUCATIONAL IMPROVEMENT LABORATORY	NC	SEP-90		*	
05-00400	NORTH CENTRAL REGIONAL EDUCATIONAL LABORATORY	IL	SEP-90		*	
06-00400	SOUTHWEST EDUCATIONAL DEVELOPMENT LABORATORY	TX	AUG-90			43,000
07-00237	NEBRASKA DEPARTMENT OF EDUCATION	NE	MAY-90		**	
07-90190	IOWA DEPARTMENT OF EDUCATION	IA	SEP-90			
FINANCIAL MANAGEMENT SERVICE						
09-00572	CALIFORNIA SDE VOCATIONAL EDUCATION PROGRAM	CA	JUN-90	965,624		
11-70263	REPORT ON FINANCIAL POSITION (SF220)	DC	SEP-90			3,070,000
OTHER						
03-90680	CONNECTICUT STATE BOARD OF EDUCATION	CT	APR-90		**	
04-90352	ALABAMA STATE DEPARTMENT OF EDUCATION	AL	MAY-90		**	
10-90307	IDAHO STATE DEPARTMENT OF EDUCATION	ID	APR-90		**	

In addition to the above reports, during the period ED/OIG issued 2,132 audit reports prepared by other auditors.

* The above schedule excludes the monetary adjustments recommended in preaward audit reports issued during this six-month reporting period. Since the results of preaward audits are used in the contract negotiation process, the contents of these audit reports are considered to be confidential. The results of certain preaward audits of contract proposals for which the contracts have been awarded are discussed in Chapter III, "General Department Management."

** Non-monetary findings only

UNRESOLVED AUDITS REPORTS ISSUED PRIOR TO APRIL 1, 1990

Section 5(a)(10) of the Inspector General Act requires a listing of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

ACN	AUDITEE/TITLE	STATE	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MGMT. DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
01-60012	CONNECTICUT STUDENT LOAN FOUNDATION	CT	12/14/87	30,103,871	01	12/31/90	16	18
10-84000	WASHINGTON STATE LIBRARY	WA	04/01/88	3,759,161	01	12/31/90	17	46
10-83547	WASHINGTON STATE LIBRARY	WA	08/29/88	1,281,318	01	10/30/90	17	46
02-73182	STATE OF NEW YORK	NY	10/03/88	24,126,276	01	12/31/90	18	53
09-83400	STATE OF CALIFORNIA	CA	10/11/88	363,009	01,02	11/01/90	**	
09-83670	ARIZONA DEPARTMENT OF EDUCATION	AZ	10/17/88	294,939	01,03	12/31/90	**	
10-83572	STATE OF WASHINGTON	WA	12/21/88	1,467,073	01	10/30/90	18	52
02-83152	STATE OF NEW YORK	NY	02/27/89	1,854,666	02,03	12/31/90	**	
06-92002	STATE OF LOUISIANA	LA	07/07/89	889,547	01	11/30/90	**	
04-70013	EFFECT OF HEA RESTRICTIVE FILING REQUIREMENT, ON EFFICIENT USE OF FED. FUNDS WITHIN THE GSL PRG.	DC	07/11/89	5,900,000	01	11/30/90	19	21
06-70200	COLLECTION OF PERKINS LOAN EXCESS CASE	DC	08/16/89	282,000,000	01	11/31/90	19	19
03-83229	COMMONWEALTH OF PENNSYLVANIA	PA	08/17/89	202,794	01,02	11/15/90	**	
08-92246	NORTH DAKOTA STATE LIBRARY	ND	09/06/89	19,521	01	10/30/90	**	
03-80290	SCHOOL DISTRICT OF PHILADELPHIA	PA	09/15/89	762,338	01	10/30/90	19	34
09-80313	PROGRAM REQUIREMENTS FOR GSL & SUPPLEMENTAL LOANS FOR STUDENTS	DC	09/15/89	33,200,000	01	12/31/90	19	4
07-92156	NEBRASKA DEPARTMENT OF EDUCATION	NE	10/29/89	*	01	09/30/90	**	
06-90503	HARGEST VOCATIONAL AND TECHNICAL COLLEGE	TX	10/31/89	2,774,000	01	11/30/90	20	9
03-93212	COMMONWEALTH OF PENNSYLVANIA	PA	11/09/89	477,073	01,02, 03	12/31/90	**	
05-05000	STATE OF WISCONSIN	WI	11/20/89	13,305	01,02	12/31/90	**	
05-90001	STAUTZENBERGER COLLEGE	OH	11/21/89	358,356	01	12/31/90	**	
07-03015	STATE OF IOWA	IA	12/06/89	687,221	01	12/31/90	20	29
02-93225	STATE OF NEW YORK	NY	12/11/89	720,747	01	12/31/90	20	28,29
09-92048	MARIANAS ASSOCIATION FOR RETARDED CITIZENS	GU	12/12/89	572	03	01/31/90	**	
10-03124	IDAHO COMMISSION FOR THE BLIND	ID	12/22/89	95,000	02	01/31/91	**	
07-80508	MISSOURI VALLEY COLLEGE	MO	12/29/89	5,766,632	01	11/30/90	20	7
05-00003	ALASKA COMMISSION ON POSTSECONDARY EDUCATION	AK	02/09/90	12,208	01	12/31/90	**	
05-00004	DELAWARE HIGHER EDUCATION LOAN PROGRAM	DE	02/09/90	79,513	01	12/31/90	**	
05-00006	MONTANA GUARANTEED STUDENT LOAN PROGRAM	MT	02/09/90	303,171	01	12/31/90	**	

ACN	AUDITEE/TITLE	STATE	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MGMT. DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
05-00007	STATE STUDENT ASSISTANCE COMMISSION	IN	02/09/90	2,812,926	01	12/31/90	20	12
05-00008	MARYLAND HIGHER EDUCATION CORPORATION	MD	02/09/90	4,666,329	01	12/31/90	20	12
05-00009	MAINE DEPARTMENT OF EDUCATIONAL & CUTURAL SVCS.	ME	02/09/90	378,839	01	12/31/90	**	
05-00010	VIRGIN ISLAND GUARANTEED STUDENT LOAN PROGRAM	VI	02/09/90	37,220	01	12/31/90	**	
05-90003	UNITED STUDENT AID FUNDS, INC.	IN	02/09/90	16,861,389	01	12/31/90	20	12
03-80302	HARRISON COUNTY SCHOOL DISTRICT	WV	02/16/90	517,621	01	12/31/90	20	18
01-93025	STATE OF MAINE	ME	02/26/90	93,523	01	12/31/90	**	
05-00005	IOWA COLLEGE AID COMMISSION	IA	02/27/90	158,318	01	11/30/90	**	
02-90509	AUTOMECA TECHNICAL COLLEGE	PR	03/02/90	911,478	02	12/31/90	20	18
04-00008	ADVANCED TECHNICAL ACADEMY	FL	03/12/90	868,769	01	11/30/90	20	4,5,16
04-95065	MERIDAN COMMUNITY COLLEGE	MS	03/13/90	11,600	01	11/30/90	**	
02-03018	NEW YORK STATE HIGHER EDUCATION SERVICES CORP.	NY	03/15/90	238,449,039	01	11/30/90	20	13,39

* Non-monetary findings only
** Not individually written up
DOJ Department of Justice is reviewing settlement agreement

REASON CODES FOR AUDITS OVER SIX MONTHS OLD
01 - Administrative delays
02 - Delay in receiving auditee comments or additional information from auditee
03 - Delay in receiving additional information from non-Federal auditor

AUDIT-RELATED RECEIVABLES
ACTIVITY FOR THE SIX-MONTH PERIOD
APRIL 1, 1990 THROUGH SEPTEMBER 30, 1990

The following schedule was provided by the Financial Management Service for inclusion in our Semiannual Report. The data have not been audited by the OIG. Accordingly, we are unable to attest to the accuracy of the data, and it is provided for information purposes only.

	AUDIT RECEIVABLES	AUDITS UNDER APPEAL	PROMISSORY NOTES	TOTAL
Balance 4/1/90	$ 81,301,772	$222,484,298	$8,235,997	$312,022,067
New Receivables	23,983,476		186,874	24,170,350
Reclassified	< 1,098,497>	<37,536,599>	11,626,474	<27,008,622>[1]
Net Due	$104,186,751	$184,947,699	$20,049,345	$309,183,795
Write-Offs	<3,542,070>		398,853	<3,940,923>
Collections:				
Cash	<30,340,184>		<997,853>	<31,338,037>[2]
Offset	< 177,704>		<150,464>	< 328,168>
Outstanding 9/30/90	$ 70,126,793	$184,947,699	$18,502,175	$273,576,667

NOTES:

[1] *This is a net figure which reflects corrections, reductions as a result of the appeal process, and negotiated reductions by the Office of the General Counsel or program officials.*

[2] *This figure excludes amounts returned to the Department prior to audit determination by program officials or as a result of liabilities established after audit determination, funds returned to recipients' program accounts, reductions of future payments or awards, and amounts returned to third parties such as GSL lenders.*

GLOSSARY OF TERMS

The following are definitions of specific terms as they are used throughout the report.

- ***Audit reports issued*** are reports of audits completed by OIG, as well as those processed by OIG but completed by other Federal auditors; by State, institutional, and other non-Federal governmental auditors; and by independent public accountants. Processing of reports of audits completed outside OIG includes assessing the quality of the work performed and transmitting the report to program managers.

- ***Audit reports resolved*** are reports on which Department management has made a written final determination of the action to be taken on the report's findings and recommendations.

- ***Better use of funds*** is a recommendation that funds could be used more efficiently if responsible officials took actions to implement and complete the recommendation by means including:

  - reductions in outlays;
  - deobligation of funds from programs or operations;
  - withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
  - costs not incurred by implementing recommended improvements related to the operations of the Department, a contractor or grantee; or
  - any other savings that are specifically identified.

- ***Civil filing*** is the submission, to an appropriate court, of a dispute in which the OIG has determined that a sum of money was misused and should be returned to the funding agency.

- ***Civil judgment*** is a court order, entered in a civil action, that the parties to the suit do, or refrain from doing, certain acts. These may include the withdrawal of claims filed against the government or the payment of funds by one party to the other.

- ***Contract audits*** are conducted to assist the Office of Management, Grants and Contracts Service, in administering the Department's contracting function.

- ***External audits and special projects*** include individual regional audits and special projects which focus on local, rather than nationwide, issues; audits which result from special requests by program managers, Hotline complaints, and other allegations; and audits which follow up on issues disclosed in non-Federal audits.

- ***Fines*** are monetary penalties imposed by Federal or State courts as part of a criminal sentence.

- ***Information*** is an accusation in writing, filed with the court by the U.S. Attorney, against a person named therein for some criminal offense, as distinguished from an indictment brought by a grand jury. Misdemeanors may be prosecuted by either indictment or information; felonies must be prosecuted by indictment unless waived by the defendant in open court. If indictment is waived, a felony may be prosecuted by information.

- ***Nationwide and internal audits*** identify and address problems and recommend improvements from a broad, national perspective, both internal and external, to ensure that Federal education funds are used effectively and efficiently and that program goals are accomplished. In addition, some of these audits focus specifically on the internal management activities of the Department.

- ***Non-Federal audit*** activities are directed to the review and processing of non-Federal audit reports, as well as providing technical assistance to recipients of Federal financial assistance and non-Federal auditors in meeting audit requirements.

- ***Other recommended recoveries*** are recommendations for the recovery of funds for reasons other than those identified for questioned costs. Recommendations to recover (1) excess cash held by a recipient, (2) previously written-off accounts receivable, and (3) overallocations of program funds are examples of other recommended recoveries. Amounts that will ultimately be refunded to the Federal government or recovered by other means are dependent upon final determinations made by the responsible program managers and possible subsequent adjudication. Other than in our Statistical Profile and the "Audit Resolution and Recovery of Funds" section of this report, recommendations for other recoveries are not mentioned separately but are included in our statistics for questioned costs.

- ***Questioned costs*** are expenditures of funds which the auditor questions because of:
  - an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; or
  - a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.
- ***Recoveries*** are funds returned by recipients to the Department or to recipients' program accounts or third parties, or reductions of future payments or awards made as a result of, or during the course of, audit or investigative activities. The term does not include court-ordered fines or civil judgments.
- ***(Reports issued with) major changes*** are reports that required major changes or required the correction of substantial audit work which, if not corrected, would result in diminished reliability or usability of the report.
- ***(Reports issued with) minor changes*** are reports with deficiencies in the report and/or audit work that required correction but were not of a nature that affected the reliability or usability of the report.
- ***(Reports with) significant inadequacies*** are reports with deficiencies, either in the report or in the audit work, that are so serious as to make the report unusable in fulfilling one or more of the objectives of the audit, or that make the report unreliable. These reports, combined with the reports issued with major changes, comprise our universe of substandard audits.
- ***Restitutions ordered*** are reimbursements of Department funds ordered by Federal, State or local courts as part of a criminal sentence.
- ***Restitution payments collected*** are reimbursements of ED funds actually collected by the Department this period which were ordered by Federal, State or local courts during this or previous periods.
- ***Unsupported cost*** is a cost that is questioned by the auditor because, at the time of the audit, such cost was not supported by adequate documentation.

GLOSSARY OF ABBREVIATIONS

ACN	audit control number
ACT	Advanced Career Training
AICPA	American Institute of Certified Public Accountants
AIC	American Transportation College
B	billion or better use of funds
CCC	California Community College
CPA	certified public accountant/accounting
CSW	Culinary School of Washington, Ltd.
ED	Department of Education
FMS	Financial Management Service
GED	general equivalency degree
GET	General Education and Training, Inc.
GSL	guaranteed student loan
IG	Inspector General
IPA	independent public accountant
LEA	local education agency
M	million
MIR	management improvement report

OIE	Office of Indian Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAS	Primary Accounting System
P.L.	Public Law
PLUS	parent loans for undergraduate students
Q	questioned (cost)
QCR	quality control review
SDE	State Department of Education
SEA	State education agency
SFA	student financial assistance/student aid
SLS	supplemental loans for students
SMPC	Saint Mary of the Plains College
TWI	Transwestern Institute
U	unsupported (cost)
UCC	United Career Centers

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INSPECTOR GENERAL'S HOTLINE

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